

DIARY

Book 186

Social Security - Part III

	Book	Page
Social Security		
Conference of Treasury group, Viner, and Altmeyer - 3/21/39.....	186	1,25,34
a) Effects of Social Security Board plan and Fiscal and Monetary Committee plan discussed Foley memorandum, "Proposed changes concerning Old Age Reserve Account" as prepared by representatives of General Counsel's Office meeting with representatives of Social Security Board - 3/22/39.....		47
Conference of Treasury group, Viner, Blough, Altmeyer, and Dimock (Second Assistant Secretary of Labor) - 3/23/39.....		60,115
a) Memorandum on Titles II and VIII (see page 104) discussed		
b) Tate (General Counsel, Social Security Board) memorandum on conference with representatives of Treasury General Counsel's Office.....		174
c) Duffield resume of meetings.....		176
HMJr's actual statement before Ways and Means Committee - 3/24/39.....		180
a) Material used by HMJr while appearing before Committee.....		192
b) Eccles' congratulations - 3/25/39..... (See Upham's report, page 247)		197
c) Burgess' congratulations - 3/27/39.....		200
d) List of approving editorials and comment by Democratic National Committeemen.....		240
Dimock (Second Assistant Secretary of Labor) statement before Committee - 3/27/39.....		204
Chamber of Commerce of United States: report of Special Committee on Social Security Act - 3/29/39.....		213
Committee on Ways and Means adopts all of HMJr's recommendations as to changes in Title II of Social Security Act except suggestion that taxes be termed "contributions" - See Book 187, page 384 - 5/3/39		
Statements by HMJr		
Before Committee on Ways and Means, on Social Security Act amendments - 3/24/39.....		180

RE SOCIAL SECURITY RECOMMENDATIONS March 21, 1939.
3:00 p.m.

Present: Mr. Gaston
Mr. Haas
Mr. Blough
Mr. Duffield
Mr. Viner
Mr. Altmeyer
Mr. Hanes
Mrs Klotz

H.M.Jr: Have you got a set for Mr. Altmeyer?

Blough: Yes.

H.M.Jr: What I attempted to do was - for myself, first - was to get what they call the Social Security Board plan - may I read this out loud - the existing, you see; then the boys took A.C. 14.

Altmeyer: Yes.

H.M.Jr: And then - let's see: gross receipts, less benefits, administrative expenses; net cash receipts of Government, 689; add interest accrued, and total addition.

Well now, does that look fair?

Altmeyer: That - your gross tax receipts - are you stepping them up as high as that, 915 million?

H.M.Jr: Well, the boys are here; they can account for their own work.

Blough: That's adding the administrative expenses on. Your figures are all in terms of net.

Altmeyer: Oh, I see.

Blough: It's about 50 million dollars difference. We wanted to show all out-payments and in-payments; that's the only reason for putting it in.

Altmeyer: I see. The reserve by the end of 1942

(Hanes comes in)

H.M.Jr: Hello, John.

Are you fellows together on this, George?

Haas: I haven't seen it yet.

H.M.Jr: Christ, I thought - I mean I can't go chasing around the building

Blough: This is the one he had; same thing just set up two different ways.

Altmeyer: It looks reasonable.

H.M.Jr: Well now, here's the point, if I can unburden myself. First, we've got the request of Jere Cooper to come up - for me.

Altmeyer: Fine.

H.M.Jr: And what I'd like to do, you see, is to go over to the President and say, "Now here are these two plans. I'm for the fiscal and monetary plan. I can't go up and testify on this (Social Security plan) because I don't believe in it. So what do you want me to do?" I mean to the President. I mean that's the - you see, I've never seen it just in this form. And this is fair, isn't it?

Altmeyer: Yes. Oh, it's fair - no, it isn't fair. I don't think it is fair because I think looking at the first three years is just looking at the elephant's toe-nails and trying to figure out what the elephant looks like.

H.M.Jr: I mean the figures.

Altmeyer: Oh yes, the figures

H.M.Jr: I mean if I went, I wouldn't testify on this basis unless we could get you to say that as far as the subtraction, etc., etc.,

Altmeyer: Oh sure, be no question about that. Well, our people have been working with your people, so there'd be no question on the figures.

-3-

Blough: These are based on your

Altmeyer: ... medium-high.

Blough: ... medium-high.

Altmeyer: What we call medium-high.

H.M.Jr: There's the plan; I wish I had had it yesterday.
Now, you got something on your mind?

Altmeyer: Yes, but nothing as important as this.

H.M.Jr: Oh, something that's different?

Altmeyer: Oh no, it deals with the reserve, but I mean it isn't as important as the

H.M.Jr: I mean something you can't say?

Altmeyer: Oh no, I'd be glad

H.M.Jr: Well, this is ...

Altmeyer: I think another thing you ought to have before you, though, are three benchmarks - 1945, 1950, and 1955. Now, that's within the range of our comprehension, fifteen years; and let's see what the estimated annual benefit payments are at those three significant points, and the reserve at those three significant points.

H.M.Jr: What years?

Altmeyer: '45, '50, and '55 - even taking '45, because, you see, that curve of estimated expenditures goes up very steeply, very steeply, and it gets up to ...

H.M.Jr: There is no reason why they can't put on three more years. But now, the only trouble is if we go beyond, say, on the fiscal and monetary - what we going to do, raise it one percent after '42?

Altmeyer: Well, they can take any plan they ...

H.M.Jr: What would you do? You'd raise it.

-4-

Altmeyer: Well, there are two plans that I've been revolving in my mind, if we were forced to it: either spread out your tax schedule by five-year intervals instead of three-year intervals, rewrite the schedule so you'd have a new schedule in the law; or take out the second bracket entirely and go from your one percent each to your two percent each in 1943, and all of your other increases would be your half percent. In other words, I think there would be an advantage, if we're going to touch the tax schedule, in leaving some kind of a schedule in effect, instead of just freezing it at one percent and wiping out all the other future tax provisions.

H.M.Jr: What are you trying to do - what we say up in New York - trying to haggle with me a little bit? Want to split it, make it a quarter of - a half of one percent?

Altmeyer: No, no, what I'm trying to say ...

H.M.Jr: I thought we were going to get down and really bargain. Old man Frederic Delano - this is just in the family - very cutely said, "I've got the solution." He said, "Instead of raising the tax on January 1, we won't raise it until July 1, 1940." He says, "Now there's the solution for you." Going to do it in the middle of the year.

Altmeyer: That would be even worse.

No, what I was getting at was some way in which you could preserve some kind of stability, some kind of certainty as to the future tax increases, rather than to leave it all in the field of conjecture and bargaining, so to speak, at each session of Congress. That's the thing I'm afraid of. I'm not afraid of this one-half percent this next year. What I'm afraid of is if we drop this increase this next year then every Congress we're going to have this haggling about these very low rates. If we're going to haggle about this one and one-half percent thing, when we get up to a cost of 9 to 10 percent of the payroll then we've got something to bargain with.

Viner: Except that then money will be going out. There is

-5-

that difference. Now that money is coming in, not going out. That changes the psychology somewhat. This is the difficult stage, really.

Altmeyer: That's right. So what I'm trying to say, Mr. Secretary, is that I'd like to see a change made in the tax schedule, if there is going to be a change, that would preserve some kind of schedule, either by stretching out your present step-ups to five-year instead of three-year intervals, or by dropping out entirely this step-up of one to one and a half percent, and leave an additional three years for your present one percent and go to your two percent as you would anyway in 1943.

H.M.Jr: You mean go to two and two, make it ...

Altmeyer: Two and two. That's what you've got now; got two and two in '43.

H.M.Jr: And what year we going to double it?

Altmeyer: '43. I mean I'd leave '43 just the way it is.

H.M.Jr: What is '43 now?

Altmeyer: Two and two.

Duffield: Make it in one step instead of two steps.

Viner: Drop out the one and a half, one and a half stage.

H.M.Jr: And in '43 go to two percent.

Altmeyer: Just the way it is now.

H.M.Jr: And then go up ...

Altmeyer: ... in three years, just the way it is now.

H.M.Jr: Let me get this thing. The reason I have to be so careful - all of us, including myself, change every 15 minutes; I've been on the same position since 11:30 yesterday.

Gaston: That's wonderful. That's wonderful.

-6-

H.M.Jr: "nd Mr. Gaston sent me one last night. I made him put his down in writing. After I came back - the prize story of the Treasury - I told Gaston where I stood and the President stood; his answer was, "I think you're both right."

I said, "Would you mind putting it in writing?"

That was his answer.

Gaston: Sure, I worked it out.

H.M.Jr: Well now, what you're saying to me is you'll go along with the Fiscal and Monetary Board.

Altmeyer: I'll go along with anything that the Administration decides.

H.M.Jr: Then you'll go along with Mr. Eccles?

Altmeyer: You

Gaston: He said Mr. X, not Mr. Eccles.

H.M.Jr: You go along with Mr. X, leaving the tax at what it is today, is that right, which is one percent, and then jump it to two percent in '42. Is that right? When did you think that one up? Is that what you give all your time to?

Altmeyer: No, no, but as I say if you're going to abandon this tax schedule, which - I can see that it's a problem, but think we'll have a worse problem in future Congresses; so it's a question of when we hit the problem.

H.M.Jr: I think you know Jesse Jones was just here; but I'm not the trader that he is.

Altmeyer: The way I feel ...

H.M.Jr: I see what you mean. Do I understand - to be serious - I mean now the reason I have to joke is because everybody around here, as I say, including myself, is all over the lot on this; it is difficult. Do I understand that you're

considering or have arrived at the point where you say, "We'll skip the one percent and go to two in '43"? Have you arrived at that?

Altmeyer: No, no, but I say if it's decided, if the President says, "Well, I've reconsidered, I think we'd better postpone this thing," I think the Treasury and the Social Security Board ought to work out a plan so that we still retain some element of certainty for the future.

H.M.Jr: What makes you think the President will reconsider?

Altmeyer: From what you were going to show him - those two sheets.

H.M.Jr: You're good today, Altmeyer.

(On phone) Mr. Kannee, please.

Supposing I ask if the President will just see the two of us first thing tomorrow morning, because I'd like you to hear what I've got to say. I don't want to say it alone. Have you hear it. I'll take Lauchlin Currie with me if you want to.

(Hearty laughter)

Altmeyer: It's O.K. I haven't seen the Currie-Cohen plan though.

H.M.Jr: Will you (Duffield) give him a copy?

Duffield: You bet.

H.M.Jr: Why don't you give him a copy of the photostats of everything that I took over? I think Altmeyer ought to have that. As a matter of fact, they're right here.

Duffield: Those are the negatives, if you don't mind reading the negatives. I can give you positives.

H.M.Jr: Anyway, see that he gets a complete set.

Duffield: I will.

Altmeyer: Now, I might mention the advantages from a fiscal

-8-

standpoint, as I see it, of the two alternatives, if you're going to change on this tax schedule thing. If you stretch it out by five-year intervals instead of three-year intervals, as near as I can guess now - I haven't gotten the figures - it means you have to come in with a government subsidy earlier, by 1945, if you stretch it out. If you take the other alternative, just dropping out this half percent step-up but going to your two percent in 1943, as now provided in the law, just skipping this half percent, you won't have to come in with a government subsidy so soon. I don't know just exactly when it would come in.

So, skipping the half percent step-up, if you thought there was a chance of Congress, when it was meeting in 1943, letting this step-up occur from a fiscal standpoint, there would be more money coming in.

H.M.Jr: Well ...

(On phone) Hello. - Well, as soon as he comes out, I want him, please.

Incidentally, Johnny, Miss LeHand said the President promised to dictate that letter this afternoon, and that's about the sixth time I've asked him. They have not yet done it, but he promised to do it this afternoon. I really think it's six times.

This is what I thought all by myself. Unless I want to get involved in a highly technical discussion in which I'd be sunk, I thought that the sincerest thing that I could do would be to say, "Gentlemen, here are the two plans as I understand them." I mean I'm going to call one the Social Security Board plan, the other the Treasury plan. "And I simply feel that in view of the situation that I can't look forward for the Treasury more than three years; that's a long time for the Treasury. And I feel I can recommend what we call the Treasury plan. And then we think that Congress in the year 1942 should re-examine the whole thing and see what would be good from the standpoint of the person who is to be taken care of and within the realms of financial sanity from the Treasury standpoint."

-9-

Altmeyer: And then in effect recommending that the rest of the tax step-ups be obliterated at this time?

H.M.Jr: Well, all I'm going to talk about is for three years; I'm not going beyond three years.

Altmeyer: You're suggesting the whole thing be re-examined.

H.M.Jr: And if necessary, I mean, raise the tax in '43 half a percent, one percent, one and a half percent, two percent, whatever is necessary.

Altmeyer: But there is a tax schedule running up to 1949. As I gather, the implication of your remarks would be that - keep your one and one percent now.

H.M.Jr: Oh well, I see. No, then I would - I'm willing to say, "Just pass a law saying that we will not take the step-up now, but leave it the way it is for the rest of the time, and then take a look." I'll go along with you on that.

Altmeyer: I see.

H.M.Jr: Go to two percent for three years and then ...

Blough: Two and a half.

Duffield: Three percent.

Gaston: Two, two and a half, three.

Duffield: Talking about over-all or each one?

H.M.Jr: I was talking about combined.

Duffield: Then it would be two percent to '43 and then it would be three percent.

Blough: Four percent.

Duffield: Four percent.

H.M.Jr: Get together, boys. What is it?

Altmeyer: Two percent each, four percent, in '43.

H.M.Jr: Four percent in '43.

-10-

Altmeyer: Two percent each.

H.M.Jr: And then that's good for another three years.

Altmeyer: Yes.

H.M.Jr: And then?

Altmeyer: It's two and a half percent, all-over five.

H.M.Jr: Yes. I wouldn't recommend making any changes. The only thing I'm suggesting is ...

Altmeyer: ... skipping this half percent.

H.M.Jr: Is that all?

Altmeyer: Yes.

H.M.Jr: That's all. That's all. But as I say, I'd just like to go over there with you and lay these two things on his table and say, "Well now, Mr. President, I'm sorry, but we didn't have our stuff in very good shape, and we've got it now, and as Mr. Altmeyer says, this is as near correct as it can be, and the Treasury says"

Take it, George; take a look at it. Sorry they didn't show it to you. Should have showed it to you. But I can't do it all.

Blough: No intention - I'm sorry too, Mr. Secretary.

H.M.Jr: Well, you have over-night anyway. "And do you want this Social Security plan when you see it like this?" And I'm not going to - I'm not going to do any selling when I go over.

Altmeyer: I do think

H.M.Jr: I'm not going to - I'm just going to say, "Here it is."

Altmeyer: I do wish you'd tack on '45 and '50 at any rate.

H.M.Jr: All right, I tell you what you

-11-

Altmeyer: Because it's such a tremendous sweep-up of the curve of benefits; you don't get a picture of that in the first three years.

H.M.Jr: Leave this with me, and by tomorrow morning when I come in take the tax schedule as it is written now and add them to both the Treasury plan and to the Social Security plan through '45 and '48, see?

Viner: That is, work it out to see what it will look like, if we take this step, for another ten years, fifteen years.

H.M.Jr: He's saying six more years. You (Altmeyer) say run it up to '48.

Altmeyer: 1945, then skip to '50.

H.M.Jr: Whatever Mr. Altmeyer suggests.

Gaston: '45, '50, '55.

H.M.Jr: And you could have that for me here in the morning. Do you think it would be safe to call this "Fiscal and Monetary"? I think better call it the Treasury plan.

Duffield: Everybody except Danny Bell on the Committee.

H.M.Jr: Better call it Treasury plan. That should be rewritten.

Altmeyer: Well now, Mr. Secretary ...

Viner: I'd suggest you put no name on it, so you're still free to choose the other one. You're committing yourself if you ...

H.M.Jr: Let's call it the Viner plan.

Viner: That's just what I want to guard against.

H.M.Jr: Do you know this fellow very well?

Altmeyer: I certainly do. He was for a fifteen billion dollar reserve at one time.

-12-

Viner: As against forty-seven? I still am.

H.M.Jr: We're glad you say that, because he was trying to tell me he never was for a reserve.

Viner: Not for a forty-seven. I'm still for a reserve. I'm arguing for a reserve now.

H.M.Jr: What size reserve?

Viner: Oh, a contingent reserve to cover at least three years.

H.M.Jr: How big?

Viner: I say it ought to be about four billion dollars; most of them talk about two and a half or three.

H.M.Jr: The discussion is whether we should change the name of the Fiscal and Monetary plan to the Viner plan. Viner's trying to get his name on it.

Viner: I'm trying to protect the Treasury. I'm willing to bear the rap for it as long as you don't put the Treasury name on it. My only point is, why give them labels?

Altmeyer: So far as we are concerned, Mr. Secretary, we'll go along with the Treasury. Really, there is no - I wouldn't think of going on the Hill and saying the Social Security Board thinks this and the Treasury thinks that. I think what's decided we ought to all go along with. We know the ins and outs of this ...

Klotz: He's changing too.

Altmeyer: ... better than outsiders can possibly know, and if we're licked - I mean in the sense that the arguments on the other side seem to be stronger, we ought to go along with it.

H.M.Jr: You know me for six years - I mean not intimately, but we've known each other - you know what I talk is always in the office and it isn't a question of my licking you or your licking me.

Altmeyer: We both, I think, are very

-13-

H.M.Jr: I mean there is nothing personal.

Blough: Would you rather call these Plan A and Plan B?

H.M.Jr: Yes, it's all right. And then do what Mr. Altmeyer suggested and have it here by tomorrow, by nine tomorrow morning. Is that possible?

Blough: It's possible.

H.M.Jr: And let Mr. Haas see it, please.

Blough: I'm sorry, I should have done that.

H.M.Jr: It's all right.

Well, the way I feel is this. I can't be quite as generous as you are, because unless I take another somersault I don't think I can go up and testify that the tax should go into effect, the increase in the tax. But after a good night's rest I may feel differently. It's an awful difficult problem.

It gets down to this, of course. What it boils all down to is, does the President want to withdraw a billion dollars of money from out of payrolls - that's what it amounts to - in the next three years, in round figures?

Altmeyer: Of course, I didn't present the figures yesterday on the other Social Security titles, but they're going to run up next year, with the amendments that we're recommending - the total disbursements outside of old-age insurance under the Social Security Act are going to run over 400 million dollars.

H.M.Jr: Yes. Now ...

Altmeyer: So that

H.M.Jr: Excuse me.

Altmeyer: ... so far as the effect on purchasing power is concerned

H.M.Jr: Now, I'm not a very good politician; in fact, I'm

-14-

a lousy one. But from the temper of both the Senate and the House, what would you say - what are the betting odds as to getting this increase in tax through?

Altmeyer: Well, you know, the interesting thing is this. Jere Cooper was really quite typical of the Ways and Means Committee on it. They've been exposed to two months of testimony, and I think that they are in - would be prepared to stay by the present tax schedule; in fact, I don't think it's entered their consciousness to think of changing the present tax schedule - the Ways and Means Committee. I don't think it's entered their consciousness and this will come as a surprise to them: that the Treasury recommends ...

H.M.Jr: Well, he heard me yesterday.

Altmeyer: Yes, but I mean other than Jere it will come as a surprise that the Government is suggesting not going up to a half percent next year, because there's been no testimony taken by them of anybody objecting except Rukeyser yesterday from Hearst, and there may have been one other person. But ...

H.M.Jr: This makes it perfect. It puts Vandenberg, Lodge, Hearst, and me in the same boat - and Eccles.

Gaston: And, I expect, John Flynn and Mr. Coster-Musica.

(Hearty laughter)

If you will pardon me

H.M.Jr: It's all right, young fellow; listen, after I read your memorandum last night, you're in a class by yourself.

Gaston: I know it, but I - there's a little underground support around here.

Viner: Are you in communication with Coster-Musica?

Gaston: No, I was suggesting names for these plans - Insull and Coster-Musica.

-15-

Altmeier: That may be because they've got a little pride of authorship in the Ways and Means Committee and they're sold on the present thing; while they've had a terrible fight on the reserve, nevertheless they'd like to cling to some of the shreds of their handiwork. Now, when it gets out on the floor of the House, I think the Ways and Means Committee would control the situation. I don't think there is much danger in the House.

When it gets over in the Senate, that's a different story. You've got Vandenberg, you've got Lodge, and I think there are a number of the liberal Senators too that would be quite concerned about this. And so I think in the Senate it might be that you would run into difficulty with a half percent step-up. That's my thought.

H.M.Jr: Well, look, I'll ask the President to see us the first time he can. In the meantime, do you (Duffield) think I ought to call up Cooper myself?

Duffield: I just promised that somebody would call him this afternoon.

H.M.Jr: I'll call him.

Duffield: This was the clerk of the Committee, it wasn't the member. This was the clerk.

H.M.Jr: Tennessee, isn't it? Where's he from?

Duffield: This is the clerk of the Committee, not Jere Cooper.

H.M.Jr: But I want to talk to him myself.

Duffield: Just call the Ways and Means Committee, clerk of the Committee, Mr. Cooper. Just the clerk of the Committee.

H.M.Jr: Well, you call him up and tell him that I just got a - I need another twenty-four hours.

Duffield: All right.

H.M.Jr: Tell him I expect to see the President again; I need another twenty-four hours.

-16-

Altmeyer: Now, do you want me to mention the other thing I have in mind?

H.M.Jr: Anything.

Altmeyer: Well, I think that a large part of the popular misunderstanding of the nature of social insurance - this contributory social insurance would be allayed if something were done on the lines of what Brown suggested on the handling of funds. You reacted unfavorably on that. You say if they don't trust the Treasury, they won't trust any Government proposition. But I think there is something to be said for this sort of a thing: Change this word "taxes" to "contributions" in the law; last year it was done in the case of railroad unemployment insurance, and they called it contributions, not taxes. Have it go into a special fund. It doesn't make any difference to the Treasury; that's where it goes eventually anyway. And perhaps have a board of custodial trustees, not investment trustees. And perhaps write into the law, or the Committee report at any rate, a declaration of policy relative to the size of reserve: three times the ...

H.M.Jr: Well now, let me ask you this. Let's do one thing at a time. In the Post Office - Postal Savings have three trustees, the Postmaster General, the Attorney General, and myself. Now, do you want to - would that plan help you any?

Altmeyer: Yes.

H.M.Jr: What?

Altmeyer: Yes. I mean you'd have Government people. Wouldn't want to bring in outside people.

Viner: Be ex-officio appointments.

Altmeyer: Ex-officio, yes.

H.M.Jr: On Government Life I'm exclusive. I'm exclusive on practically all of them, but if making two other Cabinet - making you and the Secretary of Labor co-trustees with myself - I couldn't object to that.

Altmeyer: You think so far as the Treasury is concerned, so long as the Treasury has these two essential functions, the collection and the investment, that the way it's handled, the bookkeeping here, is merely something to convince the public

Viner: Eye-wash.

H.M.Jr: I mean I can't - if you want to make yourself and the Secretary of Labor - would that be the

Altmeyer: I wasn't thinking of the trustees so much as this whole

H.M.Jr: Who besides yourself? I haven't - wouldn't it be just Labor?

Altmeyer: Yes.

H.M.Jr: Secretary of Labor.

Altmeyer: And maybe Commerce.

H.M.Jr: No, three would be ...

But I wouldn't - what the President said about putting a ceiling on this thing - I just couldn't follow him at all. I didn't want to - I didn't want two things at a time. He said when it gets to a certain height, the reserve fund, then you do what?

Altmeyer: "Just put it in escrow."

H.M.Jr: I don't know what he meant by that.

Altmeyer: I don't know what he meant.

H.M.Jr: "Let's use the figure five billion dollars. Anything over and above you put in escrow." What do you do with it?

Viner: You'd have a board to hold - you'd hold to five billion dollars, and above that a board would hold. On that basis ...

H.M.Jr: What would you do with the money in escrow?

-18-

- Viner: They'd hold it the same way you do; they'd be the legal trustees for it.
- Altmeyer: But his idea of expressing a policy - I think there's a lot to it. The policy might be expressed like this: that if at any time the reserve exceeds three times the annual benefit payments, then this board shall make a recommendation to the Congress as to what shall be done.
- Hanes: The significance I got from his statement there was - his idea was cutting off the reserve fund at five billion dollars and then have Congress explore the possibility of lowering the taxes back again to keep it - in other words, to let that fund balance itself all the time, not to go beyond that amount; if it was going beyond that amount, extending past the benefit payments, that you'd cut the tax down. That was the significance I got from what he said.
- H.M.Jr: I frankly didn't understand it.
- Altmeyer: Of course, I think it's wrong expressing it in absolute terms like five billion; it ought to be in terms of the annual benefit costs.
- Hanes: Contributions against the benefits.
- H.M.Jr: Well
- Viner: The mature benefits.
- Altmeyer: No, on that - do you know what the mature benefits under this new proposal are likely to be?
- Viner: Two and a half?
- Altmeyer: No, I mean the maximum. First let me say that the actuaries are now saying that our original cost figures may have to be stepped up by as much as 50 percent.
- Blough: That's the '35 Act, present Act.
- Altmeyer: The present Act. Well, that means in eventual cost perhaps as much as six billion dollars a year. Well now, three times that would be an 18 billion dollar reserve; you don't mean that.

-19-

Hanes: Six billion dollars a year in what year?

Altmeyer: 1980 - this mystic year.

Hanes: None of us will be alive then.

Gaston: You don't know what you're looking at, John.

Hanes: Don't think I'll be alive then, so that ...

Altmeyer: But we will be alive in 1945 and 1950, and meeting here perhaps.

Viner: No, somebody will.

Altmeyer: Our maximum cost assumptions may be as much as a billion dollars by 1945 and two billion dollars by 1950; that's what we're headed for in this thing.

Gaston: Yes. I would have thought sooner than that.

Altmeyer: That's a year, I mean.

Gaston: Yes, yes. On a flat curve proposition it would be up to two and a half or thereabouts at about '60. But it will be more than that.

Altmeyer: I don't know what it will be in 1960.

H.M.Jr: (On phone) Thank you. - Thursday? - Just a minute, let me ask Mr. Altmeyer.

If I'm going to go up there, I oughtn't to wait until Thursday, ought I, huh?

Altmeyer: Not to see the President.

H.M.Jr: (On phone - to Kannee) No, I think if he could work us in some time tomorrow... - If you please, because - on account of the Congress and on account of my going away Friday night. - Thank you very much.

Well, let's go over - now, if it helps you to have the thing, what you're talking about, the trustee business, I'll go along with you on that.

Altmeyer: That's just incidental to the other thing I mentioned.

-20-

H.M.Jr: I know.

Viner: And the change in the terms from "tax" to "contribution."

H.M.Jr: Well, I go along with you on that.

Duffield: May I ask whether you have

H.M.Jr: I go along with you on that.

Viner: The two go together, because if it goes to trustees it would be regarded as contributions.

H.M.Jr: If that's what you came

Altmeyer: I didn't know you'd be so receptive to that.

H.M.Jr: Do you have something more? I'm trying to be

Altmeyer: I thought you'd say it was just eye-wash.

Viner: But it's needed eye-wash.

H.M.Jr: I want to be helpful.

Altmeyer: I'd rather you survey your own people - I really would - because it's a long-range treasury proposition.

H.M.Jr: Well, Johnny, you go along on that?

Hanes: Sure.

Gaston: It will save a lot of letter-writing.

H.M.Jr: What?

Gaston: It will save a lot of letter-writing .

Duffield: I've got one question I want to ask on this contribution thing. I thought this got in under the Constitution under the taxing power. Is it threatened in any way by calling it a contribution instead of a tax?

Altmeyer: There isn't a clear legal question about it. I think the lawyers would say that now since we have had the

-21-

Cardozo decision and the Philippine coconut oil decision and we've got a new appointment to the Supreme Court, that probably there isn't much danger of the Court overturning it, especially if in the Committee report you said that while you call it a contribution you're exercising the taxing power, something like that, so you'd have a legal basis in case it were questioned.

Duffield: I just thought they were called taxes rather than contributions in the first place to make it perfectly clear.

Altmeyer: The titles were separated because of that. Incidentally, Mr. Secretary, you've got to revise all of your reserve language anyway, because Congress has violated the reserve requirements already by not appropriating the annual premium that your actuaries estimate is necessary.

H.M.Jr: I know.

Altmeyer: So we're violating the law now.

H.M.Jr: What was the name of that man with gray hair from Labor Department yesterday?

Altmeyer: Dimock. D-i-m-o-c-k.

H.M.Jr: What's his position?

Altmeyer: He's Assistant Secretary.

H.M.Jr: I mean where did he come from?

Viner: Marshall Dimock?

Altmeyer: Yes. Where did he come from?

H.M.Jr: Yes.

Altmeyer: University of Chicago.

Viner: He's one of our

Blough: ... political scientists.

-22-

H.M.Jr: I never met him before. Seemed like a very nice man. How long has he been here?

Altmeyer: He was over there studying immigration for about six months, and he's been Assistant Secretary for about two or three months now.

H.M.Jr: Well, you got anything else?

Altmeyer: No.

March 21, 1939.

SOCIAL SECURITY BOARD TAX PLAN

1. Existing tax schedule through 1942 with increase in rates from 1 to 1½ percent taking effect January 1, 1940.
2. Benefits under AC 14 (January 21, 1939) in accordance with the Board's medium-high estimates, including disability benefits.

(Money figures in millions)

	Calendar year			Total 3 years
	1940	1941	1942	
Gross tax receipts	\$ 915	\$ 918	\$ 920	\$2,753
Less: Benefit payments	175	400	555	1,130
Administrative expenses	51	51	51	153
Net cash receipts of Government	689	467	314	1,470
Add: Interest accrued	53	72	86	211
Total addition to fund	742	539	400	1,680
Fund at end of year*	2,172	2,711	3,111	

*Fund at end of year 1939 is estimated to be \$1,430 millions

(Based on Social Security Board figures.)

March 21, 1939

FISCAL AND BUDGETARY COMMITTEE TAX PLAN

1. No increase in tax through 1942.
2. Benefits under AG 14 (January 21, 1939) in accordance with Social Security Board's medium-high estimates, including disability benefits.

(Money figures in millions)

	Calendar year			Total 3 years
	1940	1941	1942	
Gross tax receipts	\$ 610	\$ 612	\$ 613	\$1,835
Less: Benefit payments	175	400	555	1,130
Administrative payments	51	51	51	153
Net cash receipts of Government	384	161	7	552
Add: Interest accrued	49	92	63	170
Total addition to fund	433	253	70	756
Fund at end of year*	1,065	2,082	2,192	

* Fund at end of year 1939 is estimated to be \$1,430 millions.

(Based on Social Security Board's figures.)

EB:hhj
3/21/39

RE SOCIAL SECURITY RECOMMENDATIONS March 21, 1939.
11:55 a.m.

Present: Mr. Hanes
Mr. Duffield
Mr. Blough
Mrs Klotz
Mr. Gaston
Mr. Viner

H.M.Jr: Come in, Professor. I thought you'd like to meet Messersmith.

Viner: Yes, I did; thank you very much.

H.M.Jr: Let's see what you (Blough) got on this.

Blough: That's the Social Security, with regular increases, following the Act.

H.M.Jr: This is Social Security Board.

Blough: And this is the monetary.

H.M.Jr: You got copies for Mr. Hanes?

Blough: I have a few.

H.M.Jr: Fiscal and monetary.

We'll take the Social Security thing first. Gross tax receipts, 915; benefit payments, 175; administrative expenses, 51; net withdrawals, 689.

Now, you add 175 to 51. For net withdrawal, how do you get 689?

Blough: 915 minus 175 and 51 equals 689.

H.M.Jr: Well, can't you get it so that that would be
You mean 915 minus 175 minus 51 equals

Blough: ... 689.

-2-

H.M.Jr: All right. But is that the way - wouldn't there be some line drawn by a bookkeeper, or something?

Blough: If it were horizontal, yes.

H.M.Jr: Well, now, could I draw a line between gross tax receipts and benefit payments?

Blough: Yes, it would be a

H.M.Jr: Good idea? What?

Blough: And also between administrative expenses and net withdrawal from the economy.

H.M.Jr: Now, why is it net withdrawal?

Duffield: We didn't know what to call that column.

H.M.Jr: Net withdrawal from economy, 689. Now before I draw another line - interest accrued.

Viner: I'd call it "net cash receipts of Government."

Duffield: Call it "net cash receipts." That would be much better.

H.M.Jr: Net what?

Viner: "Net cash receipts of Government."

H.M.Jr: "Net cash receipts." "Net cash receipts."

Let's see, 915 is the tax, 175 benefit payments, administrative 51; you subtract those two, you get

Blough: 689.

H.M.Jr: How do you mean, net cash receipts? To the Government?

Duffield: To the Government, yes.

H.M.Jr: Well, that doesn't express it. I see "gross" here, but you use the word "gross tax receipts" and then you use "net cash receipts." You've got to use the same word.

-3-

Duffield: All right, "net tax receipts."

Blough: Not net tax receipts; receipts would be gross - minus administrative expenses.

H.M.Jr: Where does the 53 come in?

Blough: 53 is the interest accrued, which so long as we are on a deficit is a bookkeeping item.

Hanes: That's the interest we owe to the Social Security fund on account of the three percent provision.

H.M.Jr: Is that plus or minus?

Blough: That's plus and helps to build up the fund at the end of the year. If you will take the fund at the end of the previous year, the 1430, add to it the 639 and the 53, you'll get the 2172.

H.M.Jr: Now look, you fellows make it just as hard as you can for a very simple-minded farmer. Now you start with 915

Blough: Yes.

H.M.Jr: Now, when I worked on the farm, I do either all my pluses or minuses first.

Blough: You're getting two things. You're trying to get net cash receipts to the Government and you're trying to get the fund.

Viner: I think it would be simpler if you were to arrange it in the other order, vertically instead of horizontally.

Blough: And put years across the top.

Klotz: That's right.

H.M.Jr: Yes, and then 639 is the net cash receipts that were taken out.

Viner: What the Government takes in over what it pays out.

H.M.Jr: And the 53 - we pay that out again.

-4-

Viner: That's a bookkeeping

Blough: Just make a bookkeeping transfer.

H.M.Jr: But you want another column here for the total that you add to 1430 to get 2172. I want that figure.

Blough: Total added to reserve.

H.M.Jr: If you do that horizontally, you'd get that.

Klotz: You can subtract, you see.

Blough: Total added to reserve - that's 742 in the first year.

H.M.Jr: It would be 7- ...

Blough: 742.

H.M.Jr: I get the thing now. When the next time we take 918, and the benefits are 400, expenses 51, net withdrawal 467. In other words, the net withdrawal in the next three years on Social Security is one billion 470 million.

Blough: That's correct. That's beginning in '40. I've left '39 out so you could concentrate on the three years '40, '41, and '42.

H.M.Jr: That's right. That's right. Now it begins to take shape, doesn't it?

Now, on the other basis, on the so-called fiscal and monetary thing, the net cash withdrawal is 552 or almost a billion dollars less.

Blough: That's right. Of course, after '42 the picture is different.

H.M.Jr: Well, I don't think we ought to go beyond '42.

Blough: There will be rapid increase in rates, under the fiscal and monetary committee tax plan.

H.M.Jr: The way I'm thinking - we do this for three years and in '41 we re-examine it again for three years.

-5-

Blough: We can tell in advance that if you're going ahead with the schedules, the rates will have to go up more rapidly after '42.

H.M.Jr: Now, Mr. Altmeyer is coming here at three at his request.

Now I'm getting this thing now so I understand it. You got any suggestions, John?

Hanes: No.

H.M.Jr: What?

Hanes: No.

H.M.Jr: This is - it's the 1470 as against the 552, isn't it?

Blough: That's right.

H.M.Jr: What?

Blough: That's correct.

H.M.Jr: And - well, we can fix it the other way very easily.

Blough: We can recast it in three-quarters of an hour.

H.M.Jr: I can take a look at it again - can you be back around two?

Blough: Easily.

Duffield: Be back before lunch if you want it.

H.M.Jr: I wouldn't be ready. Is this the way it should be?

Hanes: Yes. Very clear.

Duffield: Mr. Secretary, I think there are one or two reservations that maybe you don't care whether we mention or not. We've just arbitrarily taken one set of their estimates of benefits. They've got Heaven knows how many.

-6-

H.M.Jr: Well, you've got to take one.

Duffield: That's right.

H.M.Jr: You've got to take one.

Would you call Mr. Cooper's clerk and say that I'll get in touch with him this afternoon.

Duffield: Yes.

H.M.Jr: And then if you gentlemen come back - not necessary for you to be back at two, but if you (Viner) would be here at three. I'll take a look at this at two, and then if all of you could be here when Altmeyer is here, we'll put this thing before him. Tell Haas to be here, too.

But tell Cooper I've got the message. I just don't know how to answer.

But if I could have those figures horizontally at two, and then when Altmeyer is here we'll take another look at it.

Duffield: Fine.

H.M.Jr: And I think if I could get that in to see the President and simply say, "Here's the picture."

(On White House phone) "Who is making appointments for the President, Watson or Kannee? - May I please? - Thank you.

Have you (Blough) shown this to the Social Security people?

Blough: No. This comes - this is, I may say, worked up from their tables.

H.M.Jr: That's all right.

Blough: But I haven't shown this to them, no.

H.M.Jr: What it amounts to: does the President want this thing to take a billion dollars out of...-what?

Duffield: Mr. Currie's stream of spending.

-7-

Gaston: Net Federal contribution.

H.M.Jr: Does he want to take a billion dollars out of net Federal contribution? What? I mean this gets it down to, does he want to do it or doesn't he? And my own feeling is that if he - I mean if he doesn't, if he still wants to stick to this thing, I don't think I better go up on the Hill, because - well, we'll decide that.

You got any suggestions, John?

Hanes: No, not a thing.

H.M.Jr: Can you be back at three?

Hanes: Yes. Herbert, we better make

Gaston: We'll change that.

Hanes: Tell him to make it 3:15. See, it will take

H.M.Jr: Half an hour.

Hanes: Make it 3:30.

H.M.Jr: All right, people; I'll try to get an appointment to see the President tomorrow.

March 21, 1939.

FISCAL AND MONETARY COMMITTEE TAX PLAN

1. No increase in tax through 1942.
2. Benefits under AG 14 (January 21, 1939) in accordance with Social Security Board's medium-high estimates, including disability benefits.

(In millions of dollars)

Calendar year	Gross tax Receipts	Benefit Payments	Administrative Expenses	Net Withdrawal from economy	Interest Accrued	Fund at End of Year
1939	--	--	--	--	--	1,430
1940	610	175	51	384	49	1,863
1941	612	400	51	161	58	2,082
1942	613	535	51	7	63	2,152
Totals	1,835	1,130	153	552	170	--

(Based on Social Security Board figures).

March 21, 1939.

SOCIAL SECURITY BOARD PLAN

1. Existing tax schedule through 1942 with increase in rate taking effect January 1, 1940.
2. Benefits under AGLA (January 21, 1939) in accordance with the Board's medium-high estimates, including disability benefits.

(In millions of dollars)

Calendar year	Gross tax: recipient	Benefit Payments	Administrative Expenses	Net withdrawal: from economy	Interest: Accrued	Fund at End of Year
1939	--	--	--	--	--	1,430
1940	915	175	51	689	53	2,172
1941	918	400	51	467	72	2,711
1942	920	595	51	314	86	3,111
Totals	2,753	1,170	153	1,470	211	

(Based on Social Security Board figures).

RE SOCIAL SECURITY RECOMMENDATIONS March 22, 1939.
12:20 p.m.

Present: Mr. Hanes
Mr. Gaston
Mr. McReynolds
Mr. Duffield
Mr. Foley
Mr. Bell
Mr. Blough
Mr. Viner
Mr. Altmeyer
Mrs Klotz
Mr. Reagh

H.M.Jr: Hello, everybody.

Now gentlemen, Mr. Altmeyer and Mr. Hanes and I have just been over to the White House, and we took over what we have here. Now, I don't know whether all of you have seen this or not. I hadn't until I got there. But this is the work done during the night, and supposing I start off by reading this, because the President accepted this and agreed to it.

And in reading this, would you (Bell) particularly - he asked whether you've seen it; I don't know - we'd like to make it as much like the Postal Savings as possible, in connection with handling the Social Security fund, you see. I don't know how near it approaches the Postal Savings plan. Do you (Foley) know?

Foley: Well, I don't know off-hand. I can give it to you.

H.M.Jr: Well, both Mr. Altmeyer and Mr. Hanes and I thought if we could say, "This is practically the method of handling Postal Savings," it would be helpful. But I'll read it; you'll see.

Foley: This is what our people and Social Security worked out last night.

H.M.Jr: What you did last night. What we want to do is get something for me - Mr. Altmeyer will assign people - I want something - if we can meet here again at 9:15 tomorrow morning. Can you (Altmeyer)?

Altmeyer: Sure.

-2-

H.M.Jr: Now I'll read this thing here.

"Proposed changes concerning old age reserve account.

"We were in agreement that a statement, such as the following, would be appropriate:

"1. The taxes under Title VIII should be designated as 'contributions.'

"2. It is further suggested that there be created and established a fund to be known as the 'Social Insurance Trust Fund' to be held in trust by the Board of Trustees of the Social Insurance Trust Fund and to be deposited in a special deposit account with the Treasurer of the United States. The monies in the Social Insurance Trust Fund shall not be covered into the Treasury of the United States.

"The Social Insurance Trust Fund shall be made up of (1) monies appropriated thereto out of the Treasury by Congress (including the monies now carried in the old age reserve account); (2) monies collected by way of 'contributions' under Title VIII of the Social Security Act; it is contemplated that the 'contributions' will be paid directly into the Trust Fund and will not be covered into the Treasury and then appropriated out; (3) all interest, increment, or profit realized in operating the Trust Fund shall accrue to the Fund."

I just want to stop. I think if we could draw in this man from the University of Chicago, the man from Labor - what's his name?

Viner: Dimock.

H.M.Jr: What?

Viner: Dimock.

H.M.Jr: Wouldn't that be good, so they might be familiar with it? Wouldn't he be the man?

Altmeyer: I don't think anybody over there really has been working on this; but it's all right to have somebody in.

-3-

H.M.Jr: Don't you think it would be helpful?

Altmeyer: O.K.

H.M.Jr: At least he can't do any harm. What?

Altmeyer: That's right.

H.M.Jr: Send word to Douglas Brown I want him to be here Thursday and Friday, please. Huh?

Duffield: He isn't going to like that.

H.M.Jr: Why?

Duffield: He had some commitments in New York which he put off a week anyway when you called.

H.M.Jr: Well

Duffield: That's all right.

H.M.Jr: "The Secretary of the Treasury shall be the managing trustee of the Board of Trustees of the Social Insurance Trust Fund. The Social Insurance Trust Fund shall be deposited in the special deposit account and withdrawn therefrom by the Secretary of the Treasury, and as managing trustee the Secretary of the Treasury shall exercise all fiscal control over the Social Insurance Trust Fund. In that capacity shall have exclusive authority to invest or reinvest the monies in the Fund. It shall be the duty of the Secretary of the Treasury to invest such portion of the monies in the Fund as are not, in his judgment, required to meet current needs. The Secretary of the Treasury shall invest only in interest-bearing obligations of the United States, or in obligations guaranteed as to both principal and interest by the United States.

"For purposes of investment, such obligations may be acquired by the Secretary (1) on original issue at par, or (2) by purchase of outstanding obligations at the market price. The interest yield on obligations in which the Secretary may invest shall be not less than the average rate of interest provided for

-4-

in Section 904 (b) of the Social Security Act.

"3. The Board of Trustees shall be composed of the Secretary of the Treasury, Chairman of the Social Security Board, and the Secretary of Labor, whose duties shall be to report annually to Congress as to the operations and status of the Social Insurance Trust Fund during the preceding fiscal year and during the next five fiscal years."

Why "during the next five fiscal years"?

Altmeyer: You have to project your planning for five years.

H.M.Jr: "With regard to (a) income from whatever source, including contributions and interest; (b) disbursements of every character pursuant to payments under Title II of the Social Security Act; (c) the assets of the Trust Fund, including cash and securities and their yield.

"The Board shall also, from time to time, include special actuarial estimates having a bearing on the general fiscal condition of the Fund.

"The Board of Trustees shall make a special report to Congress, whenever it shall appear to the Board of Trustees that during the ensuing five years there will be a balance in the Social Insurance Trust Fund greater than three times the highest annual expenditure anticipated during such period."

Now, the President's approved this in toto. In toto, a hundred percent. And the thing that Altmeyer pointed out to me - that this doesn't mean we any longer have to issue three percents.

Viner: You're taking that out, then?

Altmeyer: If you're going to have a Government subsidy, no need to have a fixed rate of interest.

H.M.Jr: Now we presented to the President what we call Plan A.

Viner: You make your actuaries' job more difficult.

-5-

Bell: Your liability can be figured on whatever rate you want.

H.M.Jr: Well, we presented to him Table I and Table II, and when we first presented it to him - and we showed Table I went through with the present increases as in the law and Table II skipped the present increase for the next three years and then had the increases thereafter. Well, again he said he didn't like it, and so we argued. So he said, "Well, let's have four plans."

And he says, "We'll call Table I Plan A, and we'll have Plan B..." - which is here in his own handwriting: 1940, go to $1\frac{1}{2}$ percent; '41, $1\frac{1}{2}$; 1942, 1.75; and '43 and thereafter, 2 percent. Then on Plan C he said 1.16 $\frac{2}{3}$, 1.33 $\frac{1}{3}$, then $1\frac{1}{2}$, and then 2.

He said that I should go up and say, "Here, gentlemen, are four plans. We think they're all good, and we'd like Congress to study these."

But as to the Trust Fund - I mean the money - this would be a definite recommendation of the Administration. Is that right, Altmeyer?

Altmeyer: Yes.

H.M.Jr: Am I saying it about right?

Altmeyer: That's right.

H.M.Jr: Johnny, is that about right?

Hanes: (Nods yes)

H.M.Jr: And as far as I'm concerned, considering the position of the Social Security Board - and the President and Mr. Altmeyer rubbed my nose in the fact this morning that it was I who had the - what do you call this fund - reserve? - ...

Altmeyer: Reserve.

H.M.Jr: ... increased; that I wasn't satisfied. Incidentally, Herbert or somebody look up my testimony. He said I'm the fellow that had it increased, publicly.

Gaston: Yes, I think that's right.

H.M.Jr: So I'm satisfied to go before Congress in this way.

Now, what Mr. Altmeyer said he'd do to help me out, because he realizes how sketchy my knowledge is - that he will assign people to work with our people so that they can have the thing in writing for me by 9:15 tomorrow morning.

And while we were there the President coined a new word on the present situation. He said he calls this an "easement." He says, "We'll ease our way into this thing."

Bell: It's a mortgage.

H.M.Jr: What?

Bell: It's a mortgage.

H.M.Jr: I don't hear you.

Bell: It's a mortgage on future generations.

Viner: An easement is the right of somebody to walk over you.

H.M.Jr: Well, we've passed that stage, haven't we?

Well, anyway, I personally feel that - I want to say here in my own group that Mr. Altmeyer couldn't have been more cooperative if he had been with the Treasury; I've tried to meet him on the same basis.

Second place, I think in view of the President's public stand on this and his real interest in the Social Security, also in view of the fact that everybody in the Treasury has wobbled all over the lot - they never stand put on this thing one minute - and I being the worst offender, why, I can't go up and say that Plan II is the only plan, and I'm willing to present all four.

So I - after all, it's democracy and it's give and take, trial and error.

Now, who will you (Altmeyer) designate to head this thing up, to work with our people?

And another thing - if I could say, Ed, that this is almost the same as Postal Savings, or where it differs; and as to the handling of the Trust Fund and all that, if Mr. Bell will take a look at that.

Bell: The Board is practically the same - composition of it.

H.M.Jr: How busy are you, Dan, the next 24 hours?

Bell: Well, I'm pretty busy. I'd have to stop some of my hearings for this.

I'd like to raise this question. I suppose the lawyers have considered the constitutionality of the contribution features.

McR: I was going to raise the same question.

H.M.Jr: Well, that's something else.

McR: Getting back to the AAA principle there.

Bell: What would be the harm in still calling them taxes and having Congress appropriate them for the benefit of the Fund, and as they come in just deposit them in the Fund? We've got several funds that way.

Altmeyer: Well, I think, Danny, that the whole - one of our big troubles so far is we've been calling them taxes and everybody gets to talking about them as if they were general taxes.

Bell: Well, you called them taxes for constitutional reasons. Now have you jumped that hurdle?

Altmeyer: Yes, I think so.

Viner: I would suggest you might get there this way. Still call them taxes and always put in brackets after the word "taxes," "contributions to the Social Insurance Fund." In time, after a few years, you may drop out the "taxes."

Altmeyer: You know, that word "tax" was dropped out last year under that Railroad Unemployment Insurance Act. That uses the word "contributions." And the way they undertook to get over the hurdle was that in the Committee report they said that "these contributions were being levied under the taxing powers of the Federal Government." And so if they had to test it out they could always go back to the Committee report and use that.

H.M.Jr: Well, if they can meet - what's the room they meet in, Mac?

McR: 296.

H.M.Jr: 296, at 2:30. And George, you ought to give it all your time, and Plough and Reagh. And Foley, have somebody on it, but watch it; and Bell, could you take your end. And then if you - is it all right to send your people here?

Altmeyer: Fine.

H.M.Jr: And if the rest of you would sort of give this thing a - watch it go along. And I think you (Duffield) better sit in, definitely, with these boys, you see. And Mac and Herbert, if you'd kind of watch it also; but these other fellows - could you (Viner) watch it this afternoon, or you got something else?

Viner: Not unless there is more work on that letter.

H.M.Jr: Well, immediately when I come back from Wallace, if you come in I'll go over the letter with you.

But if this thing could be rolling and then if you could have something for me at 9:15.

Would you (Altmeyer) ask that man to come over from Labor? Would you do that?

Altmeyer: Yes, be glad to do that.

H.M.Jr: Now, do you mind if for the record I keep this, because I've written on it - is that all right? - and then this thing in the President's own handwriting - you can have that photostated and substitute the photostats.

Altmeyer: I'd like a copy of that so our actuaries can be

H.M.Jr: "e'll do it right away and send it over to your office.

Foley: Well, our memorandum to you is practically the same as that. I followed it. Right there - the one on top. You see, we worked this out together and this is practically what you read. That's my memorandum to you, see? So if you want to give the other back to him, it's all in this.

H.M.Jr: No, I've written on the back of it.
(To Klotz) I'd have a dozen photostats made.

Klotz: A dozen?

H.M.Jr: Yes. And a copy to go to Mr. Altmeyer.
Now, what I wanted, because I'm so - as I say, I want a definite statement. Here's one - I don't know what - Blough gave me a statement.

Blough: That's pretty bad now, because the situation has changed since I started that.

H.M.Jr: Well, if I again may say it, as to the question of the Trust Fund and that, that we feel we can agree definitely on. Right? As to the other, I'm to go up and say, "Now, gentlemen, here are four plans, and we think all four are worthy of your consideration."

Viner: They'll ask you for a preference, I'm sure.

H.M.Jr: Well, I'll simply say, "At this time I am not ready to indicate a preference."

Duffield: May I ask the significance of the reference in that Trust Fund business to a three-year reserve?

H.M.Jr: Yes.

Altmeyer: That's what everybody's been talking about: three times.

- Duffield: This puts it definitely on record, then. That says there shall be a special report to Congress whenever the reserve gets so high. Do we understand we're endorsing a contingent reserve instead of a full reserve?
- Altmeyer: Of not more than three times the highest annual benefit cost in the next five years.
- Duffield: It's all right to say so in the statement?
- H.M.Jr: Yes. And that's what you (Viner) believe in.
- Viner: (Nods yes)
- H.M.Jr: Am I right?
- Viner: That's right.
- Altmeyer: But notice it doesn't say "endorsing...."
- Viner: I myself haven't got much judgment as to whether two or four years, or so, but I think three years sounds reasonable to me.
- H.M.Jr: You vary between two and four, as against
- Viner: I'd ask the experts there as to what period. But it's a contingent reserve to take care of a short period of stress, special strain or emergency, rather than a full reserve.
- H.M.Jr: The Administration and the President have O.K.'d it.
- Hanes: That's right.
- H.M.Jr: That he's for a contingent reserve. He read the thing very, very carefully, said, "This is fine. This is grand. This is what I suggested." Isn't that practically what he said? What?
- Altmeyer: Yes. Notice it says "not greater than."
- Duffield: That's right.
- Altmeyer: It shouldn't be three times, because that would bring the Government in to subsidize perhaps sooner

-11-

than we want to subsidize; so it's a reserve not greater than three times.

Viner: It sets a maximum limit, doesn't set any minimum. I approve of the minimum, too.

H.M.Jr: And, to let politics raise its ugly head for a moment, you (Altmeyer) think this is good politics, don't you?

Altmeyer: I do. Excellent.

H.M.Jr: This takes care of the things you've been worrying about for months, doesn't it?

Altmeyer: But I think in your statement before the Committee you ought to point out what the significance of this change is: that they're going to be confronted with the necessity of either ultimately increasing payroll taxes or subsidizing out of other than payroll taxes.

H.M.Jr: We'll take a look at it.

The point, gentlemen, why I'm willing to go along with this thing - I want to see - I always try to be honest. What's happened to me recently in the last couple of days makes me as afraid as a lot of other people are that if we get this fund up to the size they're talking about, that somebody will raid it and use it for purposes for which it was never created. And I think that to have a fund the size that I originally advocated, in view of the trend of governments all over the world at this time - I think that that's dangerous. Now, I'm willing to - I've got to explain why I've changed, and I think that's what's going on. After all, there isn't a government in the world that isn't on a deficit financing basis, due to armaments and unemployed. And to build up a fund like this, of this size, and have it there - it would never stay there.

Duffield: You're willing to say that in a statement?

H.M.Jr: Yes, and I'm talking out loud and you people can think about it. I mean look the world over; what government, due to either armaments or unemployed,

-12-

isn't on a deficit basis? And in times like this I think it's unnecessary and unwise to build up a fund larger than a con- - a contingent fund larger than three years. I mean that's - and it would worry me to have a bigger one.

Duffield: I just wanted to get in mind what you wanted in the statement.

H.M.Jr: I'm talking out loud. I mean that's why I've changed. What? I mean in '35 Danny Bell and I, a couple of innocents, thought we might have a balanced budget. Since then - we're like the kittens - we've got our eyes open. Right, Danny?

Bell: On the balanced budget, yes, our eyes are open.

H.M.Jr: Well, we can't expect to see everything.

How are you on this contingent fund as against the ...

Bell: Oh, I don't know; I'm a little bit confused. I think I would like to see it go on as it is going at the present time. I'm

H.M.Jr: Well, if - as I say, 296 is the focal point. Anybody else got any questions? Are you perfectly satisfied, Johnny?

Hanes: Yes.

H.M.Jr: What?

Hanes: Yes.

H.M.Jr: And then at 9:15 tomorrow. And please, everybody, when you come in don't tell me that the Treasury is in disagreement with Social Security on the rate schedule, and so forth and so on. Now, Mr. Altmeyer - I'm speaking for him and myself - during the night rub off the edges, so when we see it tomorrow morning they're in agreement. Right? We don't want to start at 9:15 trying to adjust the rates. And you actuaries just have to get together, that's all.

Haas: I think they are now.

-13-

Reagh: I think we're in complete agreement right now,
this minute.

H.M.Jr: Wonderful. Put it in writing, will you please?

41

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 22, 1939

TO Secretary Morgenthau
FROM Mr. Foley, Acting General Counsel

Re: Proposed changes concerning
Old Age Reserve Account.

At your suggestion, Mr. Tietjens and Mr. Feldler met with Mr. Tate, Mr. Calhoun, Mr. Bingham and Mr. Stevelley from the Social Security Board last night in order to prepare a statement of the proposed changes concerning the Old Age Reserve Account.

The agreement was reached that a statement, such as the following, would be appropriate:

(1) The taxes under Title 8 shall be designated as "contributions".

(2) It is further suggested that there be created and established a fund to be known as the "Social Insurance Trust Fund", to be held in trust by the Board of Trustees of the Social Insurance Trust Fund and to be deposited in a special deposit account with the Treasurer of the United States. The monies in the Social Insurance Trust Fund shall not be covered into the Treasury of the United States.

The Social Insurance Trust Fund shall be made up (1) of monies appropriated thereto out of the Treasury by Congress (including the monies now carried in the Old Age Reserve Account); (2) monies collected by way of "contributions" under Title 8 of the Social Security Act. It is contemplated that the "contributions" will be paid directly into the trust fund and will not be covered into the Treasury and then appropriated out. All interest, increment, or profit realized in operating the trust fund shall accrue to the fund.

The Secretary of the Treasury shall be the managing trustee of the Board of Trustees of the Social Insurance Trust Fund. The Fund shall be deposited in the special deposit account and withdrawn therefrom by the Secretary of the Treasury and as managing trustee he shall exercise all fiscal control over the fund. As such managing trustee he shall have exclusive authority to invest or reinvest the monies in the fund. It shall be the duty of the Secretary of the Treasury to invest such portion of the monies in the fund as are not, in his judgment, required to meet current needs. The Secretary of the Treasury shall invest only in interest bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

For purposes of investment, such obligations may be acquired by the Secretary (1) on original issue at par, or (2) by purchase of outstanding obligations at the market price. The interest yield on obligations in which the Secretary may invest shall be not less than the average rate of interest provided for in section 904(b) of the Social Security Act.

The Board of Trustees shall be composed of the Secretary of the Treasury, Chairman of the Social Security Board, and the Secretary of Labor, whose duties shall be to report annually to Congress as to the operations and status of the Social Insurance Trust Fund during the preceding fiscal year and during the next five fiscal years with regard to:

- (a) income from whatever source, including "contributions" and interest;
- (b) disbursements of every character pursuant to payments under Title II of the Social Security Act; and
- (c) the assets of the Trust Fund, including cash and securities and their yield.

The Board shall also, from time to time, include special actuarial estimates having a bearing on the general fiscal condition of the Fund.

The Board of Trustees shall make a special report to Congress, whenever it shall appear to the Board of Trustees that at any time during the ensuing five years there will be a balance in the Social Insurance Trust Fund greater than three times the highest annual expenditure anticipated during such period.

March 21, 1939

FISCAL AND MONETARY COMMITTEE TAX PLAN

1. No increase in tax through 1942.
2. Benefits under AC 14 (January 21, 1939) in accordance with Social Security Board's medium-high estimates, including disability benefits.

(Money figures in millions)

	Calendar year			
	1940	1941	1942	Total 3 years
Gross tax receipts	\$ 610	\$ 612	\$ 613	\$1,835
Less: Benefit payments	175	400	555	1,130
Administrative payments	51	51	51	153
Net cash receipts of Government	384	161	7	552
Add: Interest accrued	49	58	63	170
Total addition to fund	433	219	70	722
Fund at end of year*	1,863	2,082	2,152	

* Fund at end of year 1939 is estimated to be \$1,430 millions.

(Based on Social Security Board's figures.)

March 21, 1939.

SOCIAL SECURITY BOARD TAX PLAN

1. Existing tax schedule through 1942 with increase in rates from 1 to $1\frac{1}{2}$ percent taking effect January 1, 1940.
2. Benefits under AC 14 (January 21, 1939) in accordance with the Board's medium-high estimates, including disability benefits.

(Money figures in millions)

	Calendar year			
	1940	1941	1942	Total 3 years
Gross tax receipts	\$ 915	\$ 918	\$ 920	\$2,753
Less: Benefit payments	175	400	555	1,130
Administrative expenses	51	51	51	153
Net cash receipts of Government	689	467	314	1,470
Add: Interest accrued	53	72	86	211
Total addition to fund	742	539	400	1,680
Fund at end of year*	2,172	2,711	3,111	

Fund at end of year 1939 is estimated to be \$1,430 millions

(Based on Social Security Board figures.)

March 22, 1939.

Table 1.
PLAN "A"

1. Tax schedule of present law (1 percent on employee and 1 percent on employer through 1939, increasing to $1\frac{1}{2}$ percent in 1940, 2 percent in 1943, $2\frac{1}{2}$ percent in 1946, and 3 percent in 1949).
2. Benefits in accordance with Social Security Board's medium-high estimates (including disability benefits) of March 7, 1939.

(Money figures in millions)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Gross Tax receipts	\$ 915	\$ 918	\$ 920	\$1,257	\$2,011	\$2,126
Less: Benefit payments	175	400	555	914	1,697	2,320
Administrative payments	51	51	51	63	101	106
Net cash receipts of Government	689	467	314	280	213	- 300
Add: Interest accrued	53	72	86	132	199	222
Total addition to fund	742	539	400	412	412	- 78
Fund at end of year*	2,172	2,711	3,111	4,657	6,943	7,465

*Fund at end of year 1939 is estimated to be \$1,430 millions.

(Based on Social Security Board's figures).

NOTE: The above tax receipts estimates are based on calculations of the Committee on Economic Security in 1935. Preliminary Treasury calculations indicate that such figures are too high. Revised figures are being prepared.

C.

40	$1.16\frac{2}{3}$
41	$1.33\frac{1}{3}$
42	1.50%
43 etc	2%

B

53

940,	1.25%
941	1.50%
942	1.75%
943-45	2.00%

March 22, 1939.

Table 2.
PLAN

1. No increase in tax through 1942; thereafter tax schedule of present law.
2. Benefits in accordance with Social Security Board's medium-high estimates (including disability benefits) of March 7, 1939.

(Money figures in millions)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Gross Tax receipts	\$ 610	\$ 612	\$ 613	\$1,257	\$2,011	\$2,126
Less: Benefit payments	175	400	555	914	1,697	2,320
Administrative payments	51	51	51	63	101	106
Net cash receipts of Government	384	161	7	280	213	- 300
Add: Interest accrued	49	58	63	101	164	181
Total addition to fund	433	219	70	381	377	- 119
Fund at end of year*	1,863	2,082	2,152	3,608	5,728	6,057

*Fund at end of year 1939 is estimated to be \$1,430 millions.

(Based on Social Security Board's figures).

NOTE: The above tax receipts estimates are based on calculations of the Committee on Economic Security in 1935. Preliminary Treasury calculations indicate that such figures are too high. Revised figures are being prepared.

March 22, 1939.

Table 1.
PLAN "A"

tax schedule of present law (1 percent on employee and 1 percent on employer through 1939, increasing to 1½ percent in 1940, 2 percent in 1943, 2½ percent in 1946, and 3 percent in 1949).

1. Benefits in accordance with Social Security Board's medium-high estimates (including disability benefits) of March 7, 1939.

(Money figures in millions)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Gross Tax receipts	\$ 915	\$ 918	\$ 920	\$1,257	\$2,011	\$2,126
Less: Benefit payments	175	400	555	914	1,697	2,320
Administrative payments	51	51	51	63	101	106
Net cash receipts of Government	689	467	314	280	213	- 300
Add: Interest accrued	53	72	86	132	199	222
Total addition to fund	742	539	400	412	412	- 78
Fund at end of year*	2,172	2,711	3,111	4,657	6,943	7,465

*Fund at end of year 1939 is estimated to be \$1,430 millions.

(Based on Social Security Board's figures).

NOTE: The above tax receipts estimates are based on calculations of the Committee on Economic Security in 1935. Preliminary Treasury calculations indicate that such figures are too high. Revised figures are being prepared.

March 22, 1939.

Table 2.
PLAN 

1. No increase in tax through 1942; thereafter tax schedule of present law.
2. Benefits in accordance with Social Security Board's medium-high estimates (including disability benefits) of March 7, 1939.

(Money figures in millions)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Gross Tax receipts	\$ 610	\$ 612	\$ 613	\$1,257	\$2,011	\$2,126
Less: Benefit payments	175	400	555	914	1,697	2,320
Administrative payments	51	51	51	63	101	106
Net cash receipts of Government	384	161	7	280	213	- 300
Add: Interest accrued	49	58	63	101	164	181
Total addition to fund	433	219	70	381	377	- 119
Fund at end of year*	1,863	2,082	2,152	3,608	5,728	6,057

*Fund at end of year 1939 is estimated to be \$1,430 millions.

(Based on Social Security Board's figures).

NOTE: The above tax receipts estimates are based on calculations of the Committee on Economic Security in 1935. Preliminary Treasury calculations indicate that such figures are too high. Revised figures are being prepared.

March 22, 1939

My dear Mr. Altmeyer:

Herewith are the photo-
stats I promised to send you.

Sincerely,

H. S. Klotz,
Private Secretary

Mr. A. J. Altmeyer,
Chairman, Social Security Board,
1712 G Street,
Washington, D. C.

March 22, 1939

My dear Mr. Altmeyer:

Herewith are the photo-
stats I promised to send you.

Sincerely,

H. S. Klotz,
Private Secretary

Mr. A. J. Altmeyer,
Chairman, Social Security Board,
1712 G Street,
Washington, D. C.

March 22, 1939

My dear Mr. Altmeyer:

Herewith are the photo-
state I promised to send you.

Sincerely,

H. S. Klotz,
Private Secretary

Mr. A. J. Altmeyer,
Chairman, Social Security Board,
1712 G Street,
Washington, D. C.

RE SOCIAL SECURITY RECOMMENDATIONS

March 23, 1939.
9:15 a.m.

Present: Mr. Hanes
Mr. Bell
Mr. Haas
Mr. Gaston
Mr. McReynolds
Mr. Duffield
Mr. Blough
Mr. Viner
Mr. Brown
Mr. Dimock (Labor)
Mr. Altmeyer

H.M.Jr: "Titles II and VIII of the Social Security Act of 1935 charged the Treasury with responsibility for collecting the taxes for old age insurance, for maintaining the old age reserve account, and for making the benefit disbursements certified to it by the Social Security Board. I would like to discuss with you today some aspects of the old age reserve account and the tax rates.

"Four years ago when the Act was under consideration, I strongly urged adoption of a self-supporting contributory old age insurance system in which the future tax burdens on the beneficiaries of the system would be lightened by interest earned on a reserve fund accumulated by an excess of taxes over benefits during the early years of the system. I still believe that a contributory old age insurance system is the soundest system financially."

Well - "I still believe that a contributory old age insurance system is the soundest system financially"? Do I?

Haas: That sentence needs a little

H.M.Jr: What?

-2-

Brown: I wonder, sir, if the word "still" is necessary.

Duffield: The thought was that we're changing on the reserve; however, let's make clear that we're not changing on the contributory idea, not going to a free pension idea, for instance.

Viner: Why not say then, "I believed then as I believe now...."?

H.M.Jr: All right.

Duffield: Who's correcting?

Blough: You haven't a copy.

Duffield: No.

H.M.Jr: Will this still - if it's only - I thought what you call a contingent - if you only have it for three years ...

Viner: It's still contributory.

Gaston: It's still in the main contributory.

H.M.Jr: Would you say, "I believed then, as I believe now..."? Now, you see, you've earned your carfare, Brown, see? Washington can't get along without you. New York can.

Brown: Still to be proven.

H.M.Jr: Any other suggestions?

Duffield: I want to point out here the reason the dotted line is in there - there's an alternative version for a ways here, but this is the one agreed on last night.

H.M.Jr: Have you seen this, Dan?

Bell: No.

H.M.Jr: All right so far, everybody?

"Four years ago our expectation was that the Act as then under discussion would provide old age

-3-

security for a fairly distinct group in the community. We realized, of course, that there was considerable shifting of workers between employments proposed to be covered by the Act and those not proposed to be covered."

I don't think that's quite clear. "... there was considerable shifting of workers between employments proposed to be covered by the Act and those " Don't you mean...

Duffield: Industries.

H.M.Jr: Yes, but I don't think that sentence is clear. Put a question mark. I've got one. Somebody can clear that.

Gaston: It's an effort to be precise. Briefly, it's saying that there was expected to be a considerable shifting between the covered employments and the employments that were outside the coverage.

H.M.Jr: I don't think - I know what you mean, but I don't think it's simple enough, that sentence.

O.K.?

Duffield: Yes.

H.M.Jr: "However, it was generally considered that the shifting group was small compared with the great mass of workers who remained throughout their working lifetimes in either the covered or the uncovered groups of industry."

Now, I may want to come back to that. I don't know why that's necessary for me to say; it seems so obvious.

Duffield: This is the burden of the argument.

H.M.Jr: Oh, this is why we're doing it?

Duffield: This is why we're doing it.

Gaston: That's one of two reasons.

-4-

H.M.Jr: "Because the group of employments chosen for initial coverage had been selected primarily upon the basis of administrative feasibility, it did not seem fair that persons in other and probably more needy portions of our population should be taxed in order to provide old age benefits as-of-right for the covered group. I therefore urged to your Committee in 1935 that the old age insurance system be made self supporting. By so doing I believed that we would avoid the anomaly of the poorer groups in our country contributing to the support of more prosperous groups."

'Well, that's all right, what?

McR: It's a good statement right there. What we were trying to do was just make sure that you weren't taking funds from general taxes to support somebody better off than the people paying the general taxes.

H.M.Jr: That takes part of - one part of Gaston's theory. I can understand that if we are to increase it, we should increase the taxes, say, in the income tax group and take it from there and pay rather than any place else.

McR: Take it from general taxes.

Gaston: Yes, that's along that same line.

Altmeyer: I don't think I'd point it up like that - poorer groups taking care of more prosperous. I think that just sets up a class idea there.

Gaston: I'm inclined to agree with you, Mr. Altmeyer. I don't think you need to say that.

Altmeyer: Because the reason for social insurance is that the people covered are not really prosperous enough to

Haas: You can leave out the distinction as between well-being and

Gaston: That can easily be fixed.

Viner: You say that uncovered persons shouldn't be taxed.

-5-

Altmeyer: General population shouldn't be taxed to pay only for a group.

Gaston: Just the word "all"

Altmeyer: I just picked it up: that you didn't pass that.

Brown: "Poor and prosperous."

H.M.Jr: What did you decide? Did Altmeyer kick this beautiful theory in the pants?

Gaston: Just changing a word.

Altmeyer: Just didn't want you preaching socialistic doctrine, that's all - class conflicts.

Blough: The statement that is on this sheet now is: "it did not seem fair that uncovered persons should be taxed in order to provide old age benefits as-of-right for the covered group."

H.M.Jr: Oh

Duffield: That gets off

H.M.Jr: Oh no.

Duffield: No headline in that.

Altmeyer: Not fair that the general population should be taxed for a relatively small group, or something like that.

H.M.Jr: You don't like the word "masses"?

Viner: You mustn't say "general population," because this isn't part of the general taxes on the public, it's a special group that's being taxed; it's the payroll group.

Gaston: Particular references to the whole population....

Blough: We didn't want any other taxes because we didn't want the whole population to pay.

Gaston: Might simply say "all citizens."

Duffield: We can take care of the whole phraseology.

-6-

McR: I think the point is a perfectly sound one you're trying to get at, Mr. Altmeyer.

Duffield: We can state the point correctly.

Blough: You want a sentence that will get the headlines.

Duffield: Oh boy!

H.M.Jr: No.

Gaston: No.

H.M.Jr: I mean the President again and again inferred it was the lower one-third.

Bell: Not the ones in the insured group - old age.

Altmeyer: Just the reverse of what you're saying here.

H.M.Jr: Jake Viner says some of the poorest aren't in the lower third.

Viner: Aren't in the covered group at all; they're uncovered.

H.M.Jr: I don't like the word "covered" and "uncovered." It isn't a terminology

Altmeyer: "Insured" - we can use that.

Hanes: Why not put a period after your word "supporting"? Just stop there.

Duffield: Leaving off the last sentence.

Hanes: That's a strong sentence if you close it there.

H.M.Jr: Mr. Dimock, now live up to your reputation from the University of Chicago and say what you have in your mind. This is a free discussion. Don't let Jake Viner carry the ball entirely.

Dimock: He never influences me.

McR: Dimock was in with us last night.

Viner: It's never necessary.

-7-

McR: He was in at the discussion.

H.M.Jr: I just wanted to let him know that he shouldn't be ...

Brown: Mr. Secretary, is the decision to cut that last sentence? The sense of the last sentence is up in the body, and it's true that it's a stronger close.

Gaston: Yes, it's repetitive.

Altmeyer: And just change the word "covered" to "insured."

H.M.Jr: You say here "... should be taxed in order to provide old age benefits as-of-right for the covered group." You say it right there. I think do what Mr. Hanes said, leave the last sentence out.

Can't you - I don't like the word "covered group."

Altmeyer: "Insured group."

Bell: "Insured" and "uninsured."

H.M.Jr: "Insured" and "uninsured." "By so doing..." - we leave that off. If I leave the last sentence off, John, will you please change your mind? (Hands Hanes clipping about rumor of resignation)

McR: Why, you son of a gun.

H.M.Jr: I'll leave the last sentence off if you'll change your mind.

McR: If he doesn't change his mind, I'm not going to speak to him.

Bell: Johnny resigning again?

H.M.Jr: He can't now. I've changed the sentence.

Hanes: Don't have a chance to make up one's own mind.

McR: Getting in the boss's class; they have him resigning twice a year.

-8-

H.M.Jr: Well, we're all right except I still don't like that sentence up near the top - I don't think it's quite clear -: "however, it was generally considered that the shifting group was small compared with the great mass..." That part there - I don't think that that's - can't that be improved?

Gaston: That can be said in simpler language.

H.M.Jr: Professor Brown, you can improve that, can't you?

Brown: I can cooperate in such improvement if you wish.

H.M.Jr: Righto. O.K.

Viner: Nicely said.

H.M.Jr: He comes down nice and fresh; these boys worked all night.

"Our experience under the Act has shown our initial expectation to be in part correct."

Duffield: "Incorrect."

H.M.Jr: "... incorrect. Migration of workers between covered and uncovered..." - that would be "insured" and "uninsured" - "... employments has been far greater than was allowed for by the Committee on Economic Security. In my last annual report, I directed attention to one of the consequences of this migration, stating that a substantial increase in tax rates would be necessary to maintain the Act on an actuarial reserve basis as provided by law."

Well now, somebody who follows this very minutely would know what that means, but 999 people out of a thousand wouldn't know what that meant.

Haas: Could put more detail in it. We had it and cut it out.

H.M.Jr: I mean they just don't know. I bet there isn't one man on the Committee knows that Danny Bell said we were short a couple of hundred million dollars, or knows about the law that we have to report, and the rest of it. I mean if I was going to leave it in, I'd quote from the annual report, and so forth, or

-9-

I'd leave it out. I think either it ought to be more or nothing.

Duffield: It will have to be more.

H.M.Jr: "What do you think, gentlemen? I mean nobody, reading it, will know what the hell it is. I'm not sure I know what it is myself. What?

Bell: "Well, it sort of follows what you said before.

H.M.Jr: "But they don't know what I said in my annual report.

Duffield: We can spell out what he said in the annual report.

McR: I think it's important, because after all people are going to go back to that and check it with what you're saying here. Just as well

H.M.Jr: ... make it easy for them.

McR: ... make it easy for them.

Viner: Put it in the record.

H.M.Jr: "I should like also, however, to draw your attention to another and more cheerful corollary of this migration. As a consequence of the migration, a much larger proportion of the total population of the United States is qualifying under the contributory system to receive old age benefits than had earlier been expected. I estimated in my annual report that without extension of the coverage under present law, 80 per cent of the population of the United States ultimately will have qualified during their working lifetimes 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. We now see 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 the expected interest earning upon the large reserve contemplated by the present law. Therefore, the argument for a large reserve loses much of the validity which four years ago it seemed to possess."

-10-

Gee whiz! (Begins to read over last paragraph)

Well now, here you say that so many people have joined that the supplemental funds from general taxes may be substituted for the interest on the reserve fund; but here earlier you said that we shouldn't tax the poor in order to help the insured. Now, are those two things compatible?

Viner: Now you'll find the bulk of the population is under the scheme, whereas when the scheme was initiated you thought the scheme would cover a relatively small minority.

McR: Your first statement is of what the original conception was.

Gaston: Your original attitude was that you shouldn't take from general taxes because a limited class was to benefit. Now you find it isn't so limited, it's more of the whole population; so now there's a justification for taxing everybody for supplemental assistance.

McR: At least there isn't the same inequity in contributing from general taxes as was first conceived to be.

H.M.Jr: Then I say at the bottom of page three - where we say, "We now see," we should say in order to emphasize it, "Four years later we see that the benefits of the Act...."

McR: Good idea; that brings that point out.

H.M.Jr: Four years later. All right?

Gaston: Yes.

H.M.Jr: Altmeyer?

Altmeyer: Yes.

H.M.Jr: Jake?

Viner: Yes, I'd bring out more clearly that it isn't because we overlooked something four years ago, but the scheme itself produced information

-11-

H.M.Jr: "Four years later we see"

Gaston: "Four years of experience under the Act have shown...."

H.M.Jr: That all right, gentlemen?

Duffield: Yes.

H.M.Jr: Well now, Herbert, you who have been arguing against drawing on the general tax funds - do you go along with this?

Gaston: Oh, I don't go along with any of the scheme. I think this is as good an argument as you can make in support of the change.

H.M.Jr: Oh. Oh, you're a die-hard, huh?

Gaston: I think there is weight to this, but there isn't enough weight to change me.

H.M.Jr: Tough guy.

Altmeyer: Say, I'm going to take him on and buy him a feed.

H.M.Jr: A fee or feed?

Altmeyer: Both.

Reas: More inducement.

Altmeyer: Come on over and work for us.

H.M.Jr: This is the kind of fellow that I want to work for me. That's the advantage. That's the kind of guys we've got around here.

Viner: The last of the reactionaries.

H.M.Jr: All right.

"We now see 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 the expected interest earning upon the large reserve contemplated by the present law. Therefore, the argument for a large reserve loses much of

-12-

the validity which four years ago it seemed to possess."

That's all right.

"I do not believe, however, that there is need at the present time or that there will be need in the near future for supplementing payroll taxes from general revenue. For all classes of beneficiaries payroll taxes now are and for some time will be less than the actuarial value of the benefits which the taxes purchase."

I just take it that's so.

Duffield: The actuaries tell us so.

H.M.Jr: I mean both Social Security and Treasury actuaries are together?

Haas: They were there last night, made no question about it.

Gaston: Yes.

H.M.Jr: "Another reason for questioning the reserve system set up in 1935 is that our studies in the past three or four years have led us to the conclusion that the progress of business and of our national economy in general is more important in providing a source of old age benefit payments than is the accumulation of a large interest bearing reserve."

"Another reason for questioning the reserve system set up in 1935 is that our studies in the past three or four years have led us to the conclusion that the progress of business and of our national economy in general is more important in providing a source of old age benefit payments than is the accumulation of a large interest bearing reserve."

Well, does that mean that four years ago we didn't feel that way?

Duffield: That's what it says.

Haas: No, the next - this is a middle-of-the-road proposition - the next paragraph should be read

-13-

with that.

Duffield: Next sentence.

Haas: Or the next sentence.

H.M.Jr: Well, if you want to be strictly honest you'd say "in the past three or four years have led us to the conclusion that the lack of progress of business and of our national economy in general.." - now, I know you can't say that, but it is due to the lack of progress.

Brown: It's a long-run argument as well.

Haas: And the paragraph that has

McR: We had lots of conversation about that last night. It was generally agreed we put it in.

H.M.Jr: I believe it, but I just wondered

McR: I think it's necessary.

Haas: You're not so inconsistent when you read the next thing, compared with what you said in '35.

H.M.Jr: "The reason that a gradual step-up in the tax rate was adopted in 1935 was to permit industry to accustom itself to the new taxes and so avoid any undue restrictive effects. We could not, of course, foresee business conditions in specific future years at the time that the schedule of rates now in the Act was adopted. In periods of business recovery like the present, the financing of the old age insurance system should have the least possible deterring effect on business."

Hear, hear! Huh, Johnny?

Viner: I'd say "incomplete business recovery.." - "in periods of incomplete business recovery or of depression..."

H.M.Jr: "In periods of..." - what do you say?

Vine# : "... incomplete business recovery."

-14-

H.M.Jr: I don't like the word "incomplete." Could you put it "lack of full recovery"?

Viner: All right - "absence of full recovery."

H.M.Jr: "... absence of full recovery." I like that. Huh?

Viner: Otherwise the point is just the reverse.

H.M.Jr: Well, that's what I was afraid of. "In the absence of a full business recovery..."

Duffield: Depends on whether you regard recovery as a static or dynamic thing.

Gaston: You're thinking of two different concepts of recovery. One is of business health and the other of convalescence. The sense it's used in here is business convalescence.

Viner: Still more in periods of sickness.

Gaston: We admit only the convalescence.

Dimock: I think the whole medical analogy is very unfortunate.

H.M.Jr: How would you put it?

Dimock: I would talk in terms of national income.

H.M.Jr: "Why don't you think we should use the word "recovery"?"

Dimock: You say "recovery" - from what? If you say from 1929, why, then you're in an embarrassing position unless you talk in terms of national income.

H.M.Jr: Well, how would you put it? How would ^{you} state it?

Duffield: "In periods of"

H.M.Jr: Give him a chance.

Blough: Page five.

H.M.Jr: Top of page five. It says "In periods of business recovery like the present ..."

-15-

Bell: "In periods of improving business...."?

Dimock: I don't know; I think it's all right as it is.

H.M.Jr: well, do you want to say this: "In periods of economic readjustment..."

Bell: That could be downward.

H.M.Jr: Huh?

Blough: When you say "the present stage of business recovery," it gives an idea that you're just about in the other stages following.

Brown: Would it help to say "in a stage of business recovery such as the present"? Would you say the idea of a stage gives the idea of dynamic movement?

Viner: The use of the term "incomplete" or "the absence of full recovery..."

Gaston: "In a depression period, when full recovery has not been attained..."

Dimock: "... appearance of economic improvement..." "Improvement" is a dynamic term.

Brown: well, "in the absence of"

H.M.Jr: May I make a suggestion? This may not be the exact phraseology. I'd say, "In periods of world economic upset, as at the present time, the financing of the old age insurance system should have the least possible deterring effect on business at home, within the United States." I mean I want to get in that thought. I want to get in that thought, you see?

Bell: "world uncertainty?"

H.M.Jr: The upset is the worldwide upset, and we want to do the least - because this happens to be my philosophy of the moment; that's why I'm doing this. "worldwide upset; we want to do the least to deter economic recovery within the United States."

-16-

Now, if you can put that into good language, I want to very definitely get that. Don't you think so, Johnny?

Hanes: That's all right.

H.M.Jr: What?

Hanes: Yes.

H.M.Jr: I mean that's what I'm trying to say, and to introduce that thought: it's the world upset. And I don't want to do - I want to be positive in my action to help recovery at home. Can you get that in somewhere, Jake? See?

Plough: Sure.

Bell: Present state of world uncertainty.

H.M.Jr: Something like that. I want to get in the world picture, because - I mean if Altmeyer, for instance - which he hasn't - pushed me very hard, I'd say, "Now with things the way they are in the world now..." - and when the President pushes me very hard and says I'm an opportunist, I say, "Yes, sir, I am, because all I want to do is to get through two years. When we get through the next two years with world conditions as they are, I'm willing to do anything." I've kept saying this over and over. "It's honorable to get the United States through the next two years." This is one of the things - I want to introduce the world picture. This is the place to do it, isn't it, Herbert?

Gaston: Yes.

H.M.Jr: I want to say it. But there's the place to introduce it. What?

Gaston: Yes, yes, yes.

H.M.Jr: I mean that explains why - one of the principal reasons why I'm changing is on account of world conditions.

Gaston: We can afford to use a few more words there, because

-17-

that's an important point.

H.M.Jr: Well, it's what is motivating me.

Gaston: Yes, yes.

H.M.Jr: It's the principal thing that's motivating me. I want to get by the next two or three years.

Gaston: If there is any justification for this change, it's there.

H.M.Jr: And this is the place to put it. Check, John?

Hanes: Yes.

H.M.Jr: "It, therefore, seems to me that one of the most pertinent questions is whether it is desirable to permit a substantial increase in the tax rate to occur during the present stage of business recovery. Over against these factors affecting business, your committee must take into account the possible effects on the public understanding of contributory old age insurance if the tax rates are not increased at this time, especially if increased benefits are approved."

That's all right.

Altmeyer: I wonder whether they don't really mean "if the tax rates are not increased at this time, but increased benefits are approved."

Duffield: No, we don't want - we've tried here all the time to keep from committing the Secretary to anything which seems to say, "Don't raise the tax rates unless you increase the benefits," or anything else, because he has four plans here not predicated on benefits; that is, leave the taxes or do these other three things. We thought it was very important not to conclude that paragraph unless we had this last sentence in there which said

H.M.Jr: This keeps me in tune with the President.

Duffield: That's right. That's the point of that sentence.

McR: That was the purpose of it.

Altmeyer: I don't think you got my point there.

Duffield: But I don't think we want to tie it up with benefits. I think we want to leave him saying to the Committee, "Regardless of what you want to do with benefits, you want to consider what may be the effect on the public mind in its understanding of contributory social insurance if you don't raise taxes - regardless of what you do with benefits."

Altmeyer: Yes, but I think it's a little meaningless here to have the Secretary saying that he's worried about the possible effects on the public understanding of contributory old age insurance if the tax rates are not increased at this time. Now, why is he worried? What's the failure to step up the tax rates at this time got to do with public understanding? The point is that the thing - the point we've been discussing all this time is that if you increase benefits and don't increase tax rates, then they'll say, "Well, you can get the increased benefits out of thin air." Hasn't that been the thing we've been talking about?

Blough: Well, I think we misunderstood your position on that then, because we thought

Altmeyer: I mean both ...

Blough: I thought you had the feeling and that Dr. Brown had the feeling that to fail to go up in the tax rates would give the wrong impression to the public.

Altmeyer: I mean both; I mean particularly if you increase benefits.

Blough: That's what we say.

Brown: Don't you think that this says that?

Altmeyer: Maybe I'm wrong.

Maas: That's what it was put in there for.

H.M.Jr: This reads at the end here like a New York Times editorial. "I'm afraid of it, but on the other hand ..."

-19-

Gaston: Wall Street Journal.

McR: Wall Street Journal. Poor Gene worked all night.

Duffield: That hurts.

H.M.Jr: It hurts, you say?

Duffield: That New York Times thing.

H.M.Jr: You don't like that?

Duffield: No.

H.M.Jr: Well, unless there is something under the surface here, what I'm going to do is - if I'm not taking too much of Mr. Altmeyer's time, I thought we'd give them a chance to make these suggestions; if you would come back again this afternoon and take a look at the final draft - can you do that? Is that asking too much of you?

Altmeyer: No.

H.M.Jr: Mr. Dimock too, could you?

Altmeyer: Yes, sir.

H.M.Jr: That would be fine, because I think it's important. After all, as I understand it, Altmeyer is taking the position that what I'm saying you're going to say; this is the Administration and you're going along with it. So I'd like to make it as near as possible - what?

Altmeyer: (Nods yes)

H.M.Jr: "With these factors in mind, I recommend the following changes in the Act:

"1. We should not accumulate a reserve fund any larger than is necessary...."

Now let's just see, what am I saying here? Let's see if I've got it. I'm saying that four years ago I thought we ought to have a large reserve and the interest on that should contribute towards

-20-

paying for the old age insurance, but during the past four years I've changed. "hy?

Duffield: Because of the larger migration shift back and forth, so that the reserve doesn't play the part it was thought it would. Second, the effect on business of trying to accumulate that reserve during this period.

H.M.Jr: And third, the worldwide situation is so upset that I don't want to do anything to be a depressant on domestic affairs.

Duffield: That's part of the second point.

Viner: I'd make it a third point.

Haas: It's pretty hard to do that. Isn't that very difficult?

Viner: Say in the uncertainties that you don't want to

Haas: Oh, distinguish them.

Viner: Or that two is particularly urgent in light of the disturbed condition

Brown: Build out from the two to your three.

Duffield: That's all right.

H.M.Jr: Now, you don't want to use the language which the President used somewhere, that if they do this thing - that we want to ease into this tax increase? I mean that's the word he used, rather than - just keep that in mind, you see?

Viner: That's all right. Any step-up should be made as gradual ...

H.M.Jr: He used the word "easement policy" - ease into it. I mean that's what he said, Altmeyer, didn't he, yesterday?

Altmeyer: Yes - easement.

H.M.Jr: I mean you might, if you could, introduce that; that would be his language and his present philosophy.

-21-

- Hanes: Mr. Altmeyer's suggestion there a moment ago on that last sentence - is that put in there as a warning note? It seems to carry a warning note to the Congress: "While you're doing this thing, bear in mind that you might be destroying the contributory insurance system." Is that a warning note? Seems to me there's some substance in what Mr. Altmeyer said.
- Duffield: Without some such qualification as that, you leave the Secretary virtually in the position of saying, "Don't do anything which would deter business." And they'll just say, "Well, that means don't raise taxes or even lower taxes." And so you want to say, "Now, while you're considering these effects on business in adjusting your tax rates, you must also consider the effect on the understanding of the public of the contributory system when changing the tax rates."
- Viner: I think that sentence will have to be framed so it is more clear what sort of effect on the public understanding.
- Duffield: But that is definitely the answer to Mr. Hanes. There is a point - this statement throughout tries to say, "On this hand there is this, and on the other hand there is this." It never puts the Secretary in the position either of saying, "Lower taxes" or "Raise taxes."
- H.M.Jr: I can't do that.
- Duffield: That's right.
- H.M.Jr: You're right, and I don't want to be put in that position.
- Viner: That sentence there should state more explicitly, warn Congress that after all, there is no way of paying benefits without money; that's the point.
- H.M.Jr: No, but what Gene Duffield says is perfectly correct. We've got to do it - that's why I said about the New York Times: "On the one hand, and on the other." I can make the one hand a little bit stronger than the other, but we've got to have both.

-22-

Russ: Otherwise you couldn't put in the four tables.

H.M.Jr: "With these factors in mind, I recommend the following changes in the Act:

"1. We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or increases in the volume of benefit payments. Specifically, I would suggest to Congress that it plan the financing of the old age insurance system with a view to maintaining for use in contingencies a reserve which, within a few years, will amount to approximately three years prospective benefits."

Hanes: Wouldn't you like to take the negative there and say that no amount more than three years' reserve ...

Duffield: No, the trouble with that is that if you do these things - the actuaries tell us that in the immediate future we're going to have a reserve greater than that, and if you say "no more than," they're going to say, "Shouldn't we cut the rate to half a percent?" in the next few years.

Altmeyer: That isn't so. The actuaries didn't understand you and you didn't understand them, because if you take the standard that's laid down later in this memorandum, ...

Duffield: Yes.

Altmeyer: ... - well, that ...

Duffield: That's what I tried to argue with them last night, but Russ Reagh wouldn't see it that way.

Altmeyer: If you take the standard of three times the highest annual benefit payments in the next five years, you don't have to worry about it, and you can take Mr. Hanes' language of not greater than three times, I'm sure.

Hanes: If you take that standard

Brown: Isn't it safer, rather than to have a precise rule of thumb, to use such language as "would amount to

-23-

approximately"? I mean all these sort of rules of thumb have to be adjusted into the system; they're a guiding principle rather than an exact mechanistic limit.

Altmeyer: Well, that's what Mr. Hanes is suggesting: not more than such and such an amount.

Duffield: If I can get the actuaries to go along, I'd be happy to put it that way.

H.M.Jr: If Mr. Altmeyer says it, let's just take it that way.

Duffield: All right. Check.

H.M.Jr: And somebody, I think, has been making that point right along, saying "not more than."

Duffield: I thought so too.

Dimock: There are four possibilities. Either you can say "three years" or "not more than" or "a minimum of" or else the statement "approximately." The first three are objectionable because they're too specific, whereas the fourth one, I think, says what you want to, without creating a rule.

H.M.Jr: "Not more than"?

Dimock: "Approximately."

H.M.Jr: Altmeyer, what do you want on this? I mean you ought to ...

Altmeyer: Well, you don't want "approximately" because you don't want more than that. You want to put a top limit to the reserve. You don't want actually three times that much, because in the early years it will be a small figure and in the later years it will be a tremendously larger figure.

Duffield: O.K.

Brown: Will not exceed ...

Altmeyer: That's right; but you're looking for a ceiling here.

-24-

Duffield: That's what I thought.

Brown: "Will not exceed approximately ..."

Viner: The thing is that you shall "plan" for one which shall not exceed; the plan may have errors which produce somewhat more or less.

Brown: This says "plan" - that Congress plan the financing so it will not exceed.

Viner: That is, the aim of the plan is for a reserve which shall not exceed three years, but the actuarial calculations may produce one of three and a half years.

H.M.Jr: Can't you still say "will not exceed" and leave in the word "approximately three years"? What? O.K., John?

Hanes: Yes.

H.M.Jr: "Not to exceed approximately three years."

Hanes: Doesn't tie you down to a recommendation that you have a specific reserve of three years.

H.M.Jr: Is everybody happy on that?

Bell: I just wonder if this doesn't mean tax reduction then.

Duffield: Altmeyer assures us that it doesn't.

Bell: He's talking about five years, but in the next three years you're going to have a reserve greater than the

Viner: Yes, but it's the maximum three years' prospective benefits in the five years.

Duffield: We'll spell that out again. It's an awfully clumsy phrase to handle, but if we've got to put it in that way, we'll put it in.

Blough: You're safe if you say "within a few years." That clearly means ...

-25-

McR: As long as you hang it on the "plan," I think you're perfectly safe.

H.M.Jr: You say "within a few years."

McR: I know you've got it in there, and I've got no objection to saying "not to exceed," because ...

H.M.Jr: Are we all right on this? It's pretty important. This is almost the guts of the thing.

Altmeier: Well now, as I understand it, you're not committing yourself as to the size of the reserve; you are committing yourself as to the maximum amount.

H.M.Jr: That's right.

Altmeier: And you're saying that in your opinion the maximum amount need not exceed three times the highest annual benefit payments during the next five years.

Now, the point that several people have raised is, does the Treasury want to commit itself further on this reserve and say that - use language where you're committing yourself to a minimum? You see, now this language only commits you to a maximum; you're not committed to and you haven't urged Congress to maintain a minimum.

Duffield: There is some language a little later on ...

Viner: You can say "which in a few years will approximate but will not exceed - will reach but not exceed ..."

Blough: So you still want to keep the three years, because in the distant future it becomes too large.

Maas: Gene, that's spelled out a little later in the document.

Duffield: I think it comes out a little later.

H.M.Jr: Let's go on.

"The system of handling the old age insurance reserve should be changed so that everyone will understand clearly that it is a trust fund

-26-

established for the benefit of employees who have contributed to it. To clarify the status of the old age insurance trust fund"

Well, do you want to say "employees and employers who have contributed to it"?

Duffield: No question whether they benefit. We had it that way.

H.M.Jr: Well, they benefit in that they don't have to have their own systems.

Viner: They contribute to it directly and also indirectly. The payroll tax falls on them. Nobody has any illusions as to that.

Duffield: The question is whether it is set up for the benefit of the employers who contribute. Set up for the benefit of the employees, certainly.

Bell: Takes in both.

Duffield: Last night in the meeting there was serious question whether you should say this does benefit the employer.

Viner: Say it this way: "This is a trust fund established for the benefit of the insured."

Brown: "... of the insured persons."

Viner: Insured - whether they're contributors or not.

Gaston: Well, under the plan the insured are all to be contributors; we're still holding to that feature.

Viner: Yes, but, you see, the employers are contributors under the law.

Gaston: But they're not insured contributors.

Altmeyer: If you want to be precise about it, you can say "for the benefit of employees by whom and for whom contributions have been made."

H.M.Jr: "... established for the benefit of the insured." What's the matter with that?

-27-

Duffield: It's all right.

H.M.Jr: "... for the benefit of the insured." Period.

Gaston: Yes. Of course, that loses the idea that they are themselves contributing to it.

H.M.Jr: Well, we've used the word "contributed" so long, I just don't think it's important to bring it in.

Bell: "oesn't hurt it to say "who contribute to it."

H.M.Jr: No - "... established for the benefit of the insured." The thought here - we're going to talk - we're now talking about the reserve, we're not talking about who contributed, for the moment. Aren't we? This paragraph is on the reserve.

Brown: Well, doesn't it fit people's minds that a trust fund is for the benefit of the insured persons who - I don't see where there is the objection - who have contributed to it?

H.M.Jr: I don't care.

Viner: Just substitute "insured" for "employees" and leave the rest the same.

H.M.Jr: That's all right.

Clough: "Insured persons."

H.M.Jr: That's all right.

"To clarify the status of the old age insurance trust fund, I am recommending a change in its management. The system of trusteeship which I am proposing is similar to that used in the Postal Savings System under which the Government for many years has been acting as custodian of private savings.

"I recommend the establishment of an 'old age insurance trust fund' to be held in trust by a board of trustees of the fund and to be deposited in a special deposit account with the Treasurer of the United States. The old age insurance trust

-28-

fund would be made up of (a) money appropriated thereto by Congress, including the balance now carried in the old age reserve account, (b) contributions collected under Title VIII of the Social Security Act, and (c) income accruing to the trust fund.

"I recommend that the board of trustees for the fund be composed of the Chairman of the Social Security Board, the Secretary of Labor, and the Secretary of the Treasury. The Secretary of the Treasury should be the managing trustee for the fund."

Professor Brown, do you like those three trustees?

Brown: Sounds all right, sir.

H.M.Jr: What?

Brown: Sounds all right to me.

H.M.Jr: Would you make any other suggestions?

Brown: No.

H.M.Jr: What?

Brown: No.

H.M.Jr: Like the logic of the trustees?

Brown: Very much so.

H.M.Jr: Last night the President sort of raised his eyebrows. I wonder if he thought the President of the United States should be a trustee.

Altmeyer: Pardon?

H.M.Jr: When you and I were talking to him. You don't think so?

Altmeyer: No.

H.M.Jr: What? Is he a trustee of anything other than the United States?

-29-

Altmeyer: He merely said, "Why the Secretary of Labor?"

Well: He's President of the Red Cross. No, I don't think he's a trustee of anything.

H.M.Jr: O.K.

"The board of trustees should report annually to Congress on the operation and status of the old age insurance trust fund during the preceding fiscal year and during the next five fiscal years setting forth and estimating the income of the fund, its disbursements, and its assets. The board of trustees should report from time to time to Congress on the actuarial position of the fund. It should also make a special report to Congress whenever the trustees believe that during the ensuing five years the trust fund will exceed three times the highest annual expenditures anticipated during that five-year period. The trustees should also report to Congress when they believe the reserve is falling dangerously low."

That's your minimum, Altmeyer.

Duffield: Leaves the minimum to the discretion of the trustees.

H.M.Jr: "To improve public understanding of the purposes for which the funds are collected, I recommend that the taxes under Title VIII be termed 'contributions' even though they are levied under the Government's taxing power."

I take it that's what the lawyers

Duffield: (Nods affirmatively)

H.M.Jr: "This terminology would conform with that in the Railroad Unemployment Insurance Act.

"The change to a contingent reserve system of old age insurance necessarily has repercussions upon the rates at which the Government should collect contributions. I must advise Congress"

"Repercussions upon the rates"? That's a pretty strong word.

Wimock: "Direct effects"?

H.M.Jr: "... influences the rates..."

Duffield: That's good.

Brown: ".... must necessarily influence .."

H.M.Jr: Something like that. "Repercussions" is pretty - then you've got to explain that the repercussions will be favorable. "Influences" all right, gentlemen?

"I must advise Congress that acceptance of a contingency reserve basis means that at some future date either payroll taxes will have to be higher than the present Act provides or the Government will have to make up the deficiency from other tax sources.

"On the other hand, if a contingent reserve system is adopted and if the schedule of tax rates provided in the Social Security Act remains unchanged, we may have for a few years, unless benefits are increased unreasonably, a reserve fund somewhat larger than would be necessary under the standards I have laid down."

Altmeyer: That isn't so.

H.M.Jr: It isn't?

Altmeyer: You haven't laid down any minimum, and the maximum ...

Duffield: Well, it's higher than the maximum.

Altmeyer: No, it isn't.

Duffield: All right; this has got to be changed in view of this

H.M.Jr: All right. Evidently there is a difference between your actuaries and theirs.

Duffield: Russ Reagh is pretty tough on this one.

McR: I thought Russ and your actuaries got together

pretty well on this stuff last night. I asked him ...

Duffield: Russ kept insisting that if we said this we'd have to lower taxes.

Haas: That's if he takes the actual years, and Arthur is talking about the highest in the five.

H.M.Jr: Well, this gives Altmeyer a chance between now and this afternoon to get together.

Dimock: How about the use of the word "unreasonably" followed immediately by the statement "somewhat larger"?

Duffield: That's unfortunate. What I mean to say - increased outside of anything contemplated by the Board is what I'm trying to say.

Dimock: I mean that word "unreasonably" is a red herring to the Townsendites.

Duffield: Very unhappy.

H.M.Jr: "... unless benefits are increased..." - what do you say, "substantially"?

Bell: "Considerably."

H.M.Jr: Something like that. I wouldn't use the word "unreasonably."

Bell: Say "beyond any ..." - well, of course, there is none now contemplated.

H.M.Jr: And I don't like - I'm not Mr. Goering - "the standard I have laid down."

Duffield: "... I have suggested..."

H.M.Jr: Something like that.

Gaston: "... I have suggested..."

H.M.Jr: "There are reasons why Congress may decide that a somewhat larger contingency reserve is desirable

during the early years of benefit payments. For instance, the early annual disbursements of benefits are not representative and may not give clear indication of the proper size of a contingency fund. In addition, the contributory old age insurance principle would be jeopardized if, solely for the purpose of reducing the reserve, the rate of contributions was reduced or inadequately increased during the period"

Duffield: All this will come out if what Mr. Altmeyer says is ...

Altmeyer: I think that one sentence there is wrong. The other can stand.

H.M.Jr: "... If, solely for the purpose of reducing the reserve, the rate of contributions was reduced or inadequately increased during the period when the public had not yet come to understand completely the essential relationship between contributions and benefits."

McA: See, there's your argument on the danger of somebody wanting to reduce the tax rates because of the lack of immediate necessity to create this small reserve.

H.M.Jr: That's "on the other hand."

Duffield: Yes, that's "on the other hand."

H.M.Jr: "I am offering for your consideration four rate schedules for old age insurance contributions. They differ only as to the rates which they would apply over the next three years. Assuming that the Congress selects any one of the benefit schedules now being considered by the Social Security Board, any one of these four contribution rate schedules would, in the opinion of the President and myself..."
Uh-uh - "in the opinion of the President and myself..." - uh-uh.

Duffield: Are we not to mention the President? I thought we were.

H.M.Jr: Have we, Herbert? Never.

Gaston: No, I think not.

Duffield: I thought last night we were supposed to.

Gaston: No, no.

H.M.Jr: Just leave out "in the opinion of the President and myself." Just leave that out.

Duffield: That's all right; I thought it was supposed to be in. I wouldn't have put it in otherwise.

Altmeyer: I'd just suggest you change that word "considered," because Congress is the one to consider.

Duffield: What's that?

Altmeyer: That word "considered." You might say "now being developed."

Brown: "...studied..."

H.M.Jr: I want to read this. ".... any one of these four contribution rate schedules would..." - just leave out "in the opinion of the President and myself."

Viner: Leave out the "now being considered by the Social Security Board."

Duffield: No, because

Haas: We don't want to attach those to the Treasury, to the Secretary.

Viner: Say up above "I am offering for your consideration four rate schedules for old age insurance contributions which have been considered by" or "examined by" or "prepared by the Social Security Board."

Altmeyer: You're confusing - this is the benefit pattern here that we're talking about, not the rates.

Brown: "... the benefit schedules now being studied by the Social Security ..."

Viner: Oh, oh; I see.

-34-

H.M.Jr: "The rate schedule which will be most ..." - well, here I say "... assure the continued financial soundness of the old age insurance program." Just like that, I say that flat.

Viner: I say that's claiming more than is justified. That would be true for a given period of years.

H.M.Jr: Say "for the next three years"?

Duffield: "...during the next three years" is all right.

Brown: "...in the immediate future."

Duffield: This is all predicated on short-time

H.M.Jr: How you going to say, "for the next three years"?

Duffield: I'd say "for the immediate future."

Viner: I'd say "would assure for at least the next five years the continued soundness..."

H.M.Jr: Supposing they didn't increase the tax in '42. Would you still say that?

Duffield: All these schedules assume the continuation of the present tax.

H.M.Jr: I hate to put a yearage on it. I hate to say either three years or five years.

Dimock: You might find the headline in the newspapers: "Social Security Doomed in Five Years."

Brown: You might say "assured for the immediate future."

Duffield: "...discernible future."

H.M.Jr: Well, "...assure the continued financial soundness of the old age insurance program..."

Hanes: "...for the immediate future."

H.M.Jr: "...for the immediate future."

Brown: Or you could put "assure for the immediate future..."

-35-

- H.M.Jr: That's all right; but get in the word "the immediate future," will you please?
- Duffield: Yes.
- H.M.Jr: O.K., John?
- Bell: Can't you put on a reserve and say it will produce an adequate contingency reserve?
- Duffield: Want to watch out on that one; you'll get into an argument with the actuaries.
- Viner: I think you're (Bell) right. What it ought to say - it oughtn't to say anything about the financial soundness. Ought to say it would produce a contingent fund on the standard laid down here; in other words, a three years' contingent fund. That's all you can guarantee - that it will do that.
- Blough: It won't, though, on any one of the benefit schedules now being studied by the Social Security Board. There's one of those benefit schedules in which the rates would have to go up in 1942 - am I right? - so that the plan not to raise the rates before '43 wouldn't produce the contingency reserve of this size.
- Viner: Nevertheless, I'd still say that all you ought to promise or assure is you'll do what you now require it to do, namely, keep a contingent reserve of that size.
- Dimock: I'd cut out that sentence. You wouldn't be submitting four plans if you didn't think they have merits, and you go on in the next sentence to ...
- H.M.Jr: You mean cut out the "financial soundness," cut out the whole sentence?
- Dimock: I'd cut it.
- Bell: You say below "... depend on the scale of benefits finally adopted by Congress."
- H.M.Jr: Supposing, gentlemen, we consider leaving that sentence out. All right? I think that's - I mean

-36-

just take that under consideration.

When I say "The rate schedule will be most in harmony...."

Duffield: "... which will be ..."

H.M.Jr: "... which will be most in harmony with the maintenance of a contingent reserve on the basis previously mentioned will depend on the scale of benefits finally adopted by Congress."

Well, now the hell can I say previously that the soundness

Duffield: No, that's not right.

H.M.Jr: I think Mr. Dimock's quite right. I'd leave that out.

"The alternatives which I am laying before you are as follows:

"1. Leave the present rate schedule unchanged.

"2. Increase the tax rates from 1 percent to $1\frac{1}{4}$"

He said one and a sixteenth; that isn't a quarter.

Haas: That's the next one.

Duffield: Mr. Secretary, the numbering here is in accordance with the A, B, C which the President wrote on the tables.

H.M.Jr: No, I would do it as they go up, in the order which they go up.

Bell: Well, they come down, Mr. Secretary. If you left the present schedule as is, it would be $1\frac{1}{2}$; then it comes down to $1\frac{1}{4}$.

Viner: I'd put what the present rate schedule is. Don't tax their memories.

H.M.Jr: "... present rate schedule, which is...." - Jake's right.

-37-

"3. Increase the tax rates from 1 percent to 1-1/6" Is a sixteenth a sixth?

Bell: 16 2/3 is a sixth.

H.M.Jr: "... 1-1/6 percent in 1940, to 1-1/3 percent in 1941, 1 1/2 percent in 1942, following the present schedule thereafter.

"4. Omit the increase in tax rates from 1 to 1 1/2 percent scheduled to take place in 1940, but step up the rates in 1943 and follow the present schedule thereafter.

"You will observe that all of these plans provide for the existing schedule in 1943 and thereafter."

I think - taking Viner's thing, I think you ought to state what the existing schedule is.

Duffield: Well, I think we ought to spell that out.

H.M.Jr: "I want to emphasize that our experience under the Social Security Act has been very brief. We have been collecting taxes under the Act for only slightly more than two years."

Now here, I think, would be a place, gentlemen, for me to say unequivocally that I believe in a Social Security Act. I haven't said that anywhere, and I'd like to say it. I'd like to give it hearty endorsement, say something about the Herculean task which has been performed in getting the thing started. See, I'd like to say something nice and endorse it unequivocally here, right here.

Altmeyer: There is one thing that I think would make it a ten strike, where the Government might say about this contributory insurance thing that it's a protection against paternalism in government. You see, it's a self-earned proposition and to the extent that you can get self-earned security, to that extent you protect

McR: (Walking toward door) I've got to go over and see Ickes.

H.M.Jr: What time?

-38-

McR: Don't have to go over there until 11 o'clock, but ...

H.M.Jr: What's going on over at Ickes'? I'm going to stop at 10:30. See me through this. Sit down and be a good boy.

McR: It isn't important.

H.M.Jr: Well, you can get over there at 11. 11 o'clock?

McR: I don't have to get there until 11, but I have somebody else in there.

H.M.Jr: If you please - no, this is terribly important.

(McReynolds sits down)

Go ahead, Mr. Altmeyer.

Altmeyer: Anyway, my thought is that the essence of this kind of social insurance we're working for is that it's self-earned.

H.M.Jr: I'd like to say that.

Altmeyer: I don't know how it should be expressed. I suppose Brown can work it out better in a sentence or so.

H.M.Jr: Well, try it. And also I want to endorse Social Security and I want to say that I think the job the people have done so far is wonderful. See? I mean this is the place - there is no place that I say, "Well, I believe in Social Security."

"We have had no experience at all with the payment of monthly benefits." Haven't we?

McR: No.

H.M.Jr: "Therefore, I believe that periodic re-examination of the Act is essential. For this reason, I have discussed the reserve contribution problems which will arise in the next few years. I suggest that prior to 1943 Congress again examine the financial mechanism of the Act. Pending that re-examination, however, I believe that the tax rates for 1943 and thereafter which are now in the Act should be

-39-

retained so that in the absence of further Congressional action a definite program for financing old age insurance will be on the statute books."

Viner: I'd leave out "in the absence of further Congressional action."

H.M.Jr: Well, you can - I mean you can discuss it further; I don't care.

"I should like also to place before you four tables which show annual contribution collections, annual benefit payments and the size of the old age reserve account over the next few years under each of the four contribution schedules I have outlined above. This material, I believe, will assist you in determining how rapidly you believe contributions should be collected and how large you believe the contingency fund should be. In compiling these tables, the Treasury has used intermediate estimates of benefit payments which were supplied to it by the Social Security Board. Inclusion of these estimates in the Treasury's tables does not imply either approval or disapproval of the benefit plans which underlie the estimate. Recommendations about the size and type of benefit to be paid under the social insurance system is not the Treasury's business."

Now, all I can say is that this last, from 10 down - the middle of 10 and 11, I think, is a little bit dictatorial again. I don't know why - it's a little bit of the "I - I - I" stuff, little bit too much laying it down to Congress; and I think you can say the same thing and say it more politely. From the middle of 10 on it's too dictatorial.

Bell: Instead of saying, "I believe" - or say, "We hope."

H.M.Jr: Now, Altmeyer, what time this afternoon could you come back and see this revised thing?

Altmeyer: Come back any time.

H.M.Jr: What time you (Viner) leaving town?

-40-

Viner: I'm still elastic; I'll work on this this morning.

H.M.Jr: Should I say 2:30?

Viner: Do you want me here this afternoon too?

H.M.Jr: I don't know what your plans are.

Viner: I can - it's - I can make it.

H.M.Jr: Dimock, could you come back at 2:30?

Dimock: Yes.

H.M.Jr: Are you (Hanes) free at 2:30?

Hanes: Yes.

H.M.Jr: Supposing we say - you're (Brown) here for us today, aren't you?

Brown: Yes.

H.M.Jr: Suppose we say these people work on it some more and we be here, work on it, 2:30.

Hanes: May I suggest we leave off the last sentence?

Duffield: Well, nowhere in here do we say we don't want to get in on the benefit side. I thought we ought to say it; thought you'd always want to take the position you didn't want to say what aged people should get.

H.M.Jr: But I think I could say that if I'm asked. I think Mr. Hanes is right. I'd leave off that last sentence.

Can you (Bell) be back at 2:30?

Bell: Yes.

McR: Are you still trying to keep Johnny from not resigning?

H.M.Jr: Well, I think it's good. Aren't you (Altmeyer) fairly happy over this?

-41-

Altmeyer: Yes.

H.M.Jr: Brown, how do you feel?

Brown: All right.

H.M.Jr: I mean do you think that - let's just take a sort of - do you think from the standpoint of the 130 million people what I'm saying here is constructive?

Brown: Yes, sir.

H.M.Jr: What?

Brown: Yes, sir.

H.M.Jr: It is constructive?

Brown: Yes, sir.

H.M.Jr: Anything that any economist or sociologist can take and say, "Well now, this is just"

Brown: I won't speak for the sociologists, but I should think the economists would ...

H.M.Jr: Yes, but I mean I'm trying - is anything the matter with this?

Brown: I don't see anything.

H.M.Jr: I mean I've still got time to withdraw. See what I mean? I can still say I won't say this.

Brown: Yes. Well, fine. And I would like to in the course of our revision - that point that's brought up about this maximum three years business - I think there is a little work to be done on that still, as you suggest, as to how it can be best phrased.

H.M.Jr: But nothing has jelled yet, see, so don't

Viner: I think we can do a good deal of work yet on the phrase.

H.M.Jr: I want Brown to know that. I mean is there anything in here which you think is - I mean that I shouldn't say?

-42-

Brown: No, sir.

H.M.Jr: Mr. Dimock, now about you?

Dimock: I beg pardon?

H.M.Jr: Is there anything in here that bothers you as an individual, that you think from the standpoint of 130 million people is unsound?

Dimock: You mean the general statement?

H.M.Jr: Yes.

Dimock: I think the general statement's good. I'm inclined to cut out the sentence at the bottom of page 10, where you seem to intimate that Congress is going to do something radical before 1943 - invite them to, the way it's worded now.

H.M.Jr: Well, I didn't

Dimock: The general statement, I think, is excellent.

H.M.Jr: As a whole. Here we are coming along, completely changing my position from '35, saying we should not have more than a three-year reserve and that Congress should consider raising the taxes Now, is this thing that I'm saying in your opinion intellectually - I mean the thing that's good for me to do for the Administration? That's what I want to know.

Dimock: I think it's very good.

H.M.Jr: What?

Dimock: I think it's very good.

Viner: What about this trust fund board?

Dimock: I think that's one of the best features of it.

Isn't it the understanding that before you go into the summary of recommendations, you're going to have two or three sentences summarizing the three points you've made, because I think that would be a good thing.

-43-

H.M.Jr: I think it should be at the end. "I would sum up by saying....." I think there should be a summary. Yes, I think there should be a summary.

Brown: Mr. Secretary, you know my position about the step-up to 1 1/2. I certainly feel that number one here is the soundest.

H.M.Jr: I understand.

Brown: But I can understand your position of the four alternatives.

H.M.Jr: Well, the President - you see, Mr. Altmeyer and Mr. Danes and I went over and he agreed that we should go up there and get four alternatives and lay it on the table to the Committee.

But what I want to satisfy myself - I mean I knew your position was - you studied this thing - you say, "Now wait a minute, Morgenthau, I think you're making a terrible mistake saying this or any part of this." That's what I want to know. I want anybody here that feels I'm making a terrible mistake - I'd like them to say so; there's still time.

Altmeyer: I think time alone can tell whether we've made a mistake.

Brown: Not the New York Times, but time.

Viner: Even then it may not be definitive.

Altmeyer: There is one thing, Mr. Secretary, though, that these men ought to have in mind when they're working on this reserve standard, and I'd like to check with you and Mr. Danes on that. Wasn't it this: that the President wanted something said that will scotch this 47 billion dollar reserve thing? So he was talking in terms of a maximum. He suggested a maximum in terms of money, you see - I forget whether he said five billion or whatever he said - that could be pointed to to scotch that 47 billion. Now, this language we've got in here is - this three times thing is intended to meet the President's point on that, but it's only a statement of the

-44-

maximum; now, if you want other language in as to what the minimum or actual standard is going to be, then you've got to put in other language. But so far as this three times is concerned, that's intended to indicate the maximum.

Viner: Can't have a minimum.

Altmeyer: But I just wanted you to

McR: No, the way you've got it phrased and the way you've got it set up as to mechanics for handling this fund - I think you've got enough there.

Viner: They may not be able to put a figure on the three years, and you may have to indicate what that means to them in figures.

Duffield: The tables will show that.

H.M.Jr: I think it's a good job.

Titles II and VIII of the Social Security Act of 1935 charged the Treasury with responsibility for collecting the taxes for old age insurance, for maintaining the old age reserve account, and for making the benefit disbursements certified to it by the Social Security Board. I would like to discuss with you today some aspects of the old age reserve account and the tax rates.

Four years ago when the Act was under consideration, I strongly urged adoption of a self-supporting contributory old age insurance system in which the future tax burdens on the beneficiaries of the system would be lightened by interest earned on a reserve fund accumulated by an excess of taxes over benefits during the early years of the system. I still believe that a contributory old age insurance system is the soundest system financially. However, our experience in these four years leads me to recommend to you an alteration in the role which a reserve fund account should play in a contributory insurance system.

- - - - -

Four years ago our expectation was that the Act as then under discussion would provide old age

(2)

security for a fairly distinct group in the community. We realized, of course, that there was considerable shifting of workers between employments proposed to be covered by the Act and those not proposed to be covered. However, it was generally considered that the shifting group was small compared with the great mass of workers who remained throughout their working lifetimes in either the covered or the uncovered groups of industry.

Because the group of employments chosen for initial coverage had been selected primarily upon the basis of administrative feasibility, it did not seem fair that persons in other and probably more needy portions of our population should be taxed in order to provide old age benefits as-of-right for the covered group. I therefore urged to your Committee in 1935 that the old age insurance system be made self supporting. By so doing I believed that we would avoid the anomaly of the poorer groups in our country contributing to the support of more prosperous groups.

Our experience under the Act has shown our initial expectation to be in part incorrect. Migration of workers between covered and uncovered

(3)

employments has been far greater than was allowed for by the Committee on Economic Security. In my last annual report, I directed attention to one of the consequences of this migration, stating that a substantial increase in tax rates would be necessary to maintain the Act on an actuarial reserve basis as provided by law.

I should like also, however, to draw your attention to another and more cheerful corollary of this migration. As a consequence of the migration, a much larger proportion of the total population of the United States is qualifying under the contributory system to receive old age benefits than had earlier been expected. I estimated in my annual report that without extension of the coverage under present law, 80 per cent of the population of the United States ultimately will have qualified during their working lifetimes 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. We now see that the benefits of the Act will be so widely diffused that supplemental funds from general tax revenues may be substituted

(4)

without substantial inequity for the expected interest earning upon the large reserve contemplated by the present law. Therefore, the argument for a large reserve loses much of the validity which four years ago it seemed to possess.

I do not believe, however, that there is need at the present time or that there will be need in the near future for supplementing payroll taxes from general revenue. For all classes of beneficiaries payroll taxes now are and for some time will be less than the actuarial value of the benefits which the taxes purchase.

Another reason for questioning the reserve system set up in 1935 is that our studies in the past three or four years have led us to the conclusion that the ^{progress} ~~program~~ of business and of our national economy in general is more important in providing a source of old age benefit payments than is the accumulation of a large interest bearing reserve.

The reason that a gradual step up in the tax rate was adopted in 1935 was to permit industry to accustom itself to the new taxes and so avoid any undue restrictive effects. We could not, of course, foresee business conditions in specific

(5)

future years at the time that the schedule of rates now in the Act was adopted. In periods of business recovery like the present, the financing of the old age insurance system should have the least possible deterring effect on business. It, therefore, seems to me that one of the most pertinent questions is whether it is desirable to permit a substantial increase in the tax rate to occur during the present stage of business recovery. Over against these factors affecting business, your committee must take into account the possible effects on the public understanding of contributory old age insurance if the tax rates are not increased at this time, especially if increased benefits are approved.

With these factors in mind, I recommend the following changes in the Act:

1. We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or

6
- 8 -

increases in the volume of benefit payments. Specifically, I would suggest to Congress that it plan the financing of the old age insurance system with a view to maintaining for use in contingencies a reserve which, within a few years, will amount to approximately three years prospective benefits.

2. The system of handling the old age insurance reserve should be changed so that everyone will understand clearly that it is a trust fund established for the benefit of employees who have contributed to it. To clarify the status of the old age insurance trust fund, I am recommending a change in its management. The system of trusteeship which I am proposing is similar to that used in the Postal Savings System under which the Government for many years has been acting as custodian of private savings. I recommend the establishment of an "old age insurance trust fund" to be held in trust by a board of trustees of the fund and to be deposited in a special deposit account with the Treasurer of the United States. The old age insurance trust fund would be made up of (a) money appropriated thereto by Congress, including the balance now carried in the old age reserve account, (b) contributions collected under Title VIII of the Social Security Act, and (c) income accruing to the trust fund.

I recommend that the board of trustees for the fund be composed of the Chairman of the Social Security Board, the Secretary of Labor, and the Secretary of the Treasury. The Secretary of the Treasury should be the managing trustee for the fund.

The board of trustees should report annually to Congress on the operation and status of the old age insurance trust fund during the preceding fiscal year and during the next five fiscal years setting forth and estimating the income of the fund, its disbursements, and its assets. The board of trustees should report from time to time to Congress on the actuarial position of the fund. It should also make a special report to Congress whenever the trustees believe that during the ensuing five years the trust fund will exceed three times the highest annual expenditures anticipated during that five-year period. The trustees should also report to Congress when they believe the reserve is falling dangerously low.

3. To improve public understanding of the purposes for which the funds are collected, I recommend that the taxes under Title VIII be termed "contributions" even though they are levied under the

Government's taxing power. This terminology would conform with that in the Railroad Unemployment Insurance Act.

The change to a contingent reserve system of old age insurance necessarily has repercussions upon the rates at which the Government should collect contributions. I must advise Congress that acceptance of a contingency reserve basis means that at some future date either payroll taxes will have to be higher than the present Act provides or the Government will have to make up the deficiency from other tax sources.

On the other hand, if a contingent reserve system is adopted and if the schedule of tax rates provided in the Social Security Act remains unchanged, we may have for a few years, unless benefits are increased unreasonably, a reserve fund somewhat larger than would be necessary under the standards I have laid down. There are reasons why Congress may decide that a somewhat larger contingency reserve is desirable during the early years of benefit payments. For instance, the early annual disbursements of benefits are not ^{as full} representative and may not give clear indication of the proper size of a contingency fund. In addition, the contributory old age insurance principal would be

- 9 -

jeopardized if, solely for the purpose of reducing the reserve, the rate of contributions was reduced or inadequately increased during the period when the public had not yet come to understand completely the essential relationship between contributions and benefits.

I am offering for your consideration four rate schedules for old age insurance contributions. They differ only as to the rates which they would apply over the next three years. Assuming that the ~~Congress~~ ^{Congress} selects any one of the benefit schedules now being considered by the Social Security Act, any one of these four contribution rate schedules would, in the opinion of the President and myself, assure the continued financial soundness of the old age insurance program. The rate schedule which will be most in harmony with the maintenance of a contingent reserve on the basis previously mentioned will depend on the scale of benefits finally adopted by Congress. The alternatives which I am laying before you are as follows:

1. Leave the present rate schedule unchanged.
2. Increase the tax rates from 1 per cent to $1\frac{1}{2}$ per cent in 1940, to $1\frac{1}{2}$ per cent in 1941, to $1\frac{3}{4}$ per cent in 1942 and following the present schedule thereafter.

3. Increase the tax rates from 1 per cent to 1-1/6 per cent in 1940, to 1-1/3 per cent in 1941, 1 1/2 per cent in 1942, following the present schedule thereafter.

4. Omit the increase in tax rates from 1 to 1 1/2 per cent scheduled to take place in 1940, but step up the rates in 1943 and follow the present schedule thereafter.

You will observe that all of these plans provide for the existing schedule in 1943 and thereafter.

I want to emphasize that our experience under the Social Security Act has been very brief. We have been collecting taxes under the Act for only slightly more than two years. We have had no experience at all with the payment of monthly benefits. Therefore, I believe that periodic re-examination of the Act is essential. For this reason, I have discussed the reserve contribution problems which will arise in the next few years. I suggest that prior to 1943 Congress again examine the financial mechanism of the Act. Pending that re-examination, however, I believe that the tax rates for 1943 and thereafter which are now in the Act should be retained so that in the absence of further Congressional action a definite program for financing old age insurance will be on the statute books.

I should like also to place before you four tables which show annual contribution collections, annual benefit payments and the size of the old age reserve account over the next few years under each of the four contribution schedules I have outlined above. This material, I believe, will assist you in determining how rapidly you believe contributions should be collected and how large you believe the contingency fund should be. In compiling these tables, the Treasury has used intermediate estimates of benefit payments which were supplied to it by the Social Security Board. Inclusion of these estimates in the Treasury's tables does not imply either approval or disapproval of the benefit plans which underlie the estimate. Recommendations about the size and type of benefit to be paid under the social insurance system is not the Treasury's business.

RE SOCIAL SECURITY RECOMMENDATIONS

March 23, 1939.
2:30 p.m.

Present:	Mr. Hanes	Mr. Tietjens
	Mr. Gaston	Mr. Reagh
	Mr. Bell	Mr. Viner
	Mr. Haas	Mr. Altmeyer
	Mr. White	Mr. Gilbert Cohen (Social Security)
	Mr. McReynolds	Mr. Dimock (Labor)
	Mrs. Klotz	Mr. Brown
	Mr. Blough	

H.M.Jr: Now, Mr. Chairman.

Altmeyer: Mr. Secretary, I haven't had the chance to read this new modern opus.

H.M.Jr: You and I both. So we will start.....

Bell:at scratch.

H.M.Jr: Did Dr. Magill -- what was his comment, Jake?

Viner: He liked it all right.

H.M.Jr: What?

Viner: My impression was he liked it. He had a suggestion on this word "contributions," that the Bill should define "contributions" to mean taxes.

H.M.Jr: Should?

Viner: There should be a definition at the end of the bill that "wherever used in this bill, contributions in this Act should be understood to mean taxes."

H.M.Jr: For legal reasons, shouldn't be considered charitable.

Well, I'll start, I won't wait for Mr. Hanes.

You (Altmeyer) have a copy?

Altmeyer: (Nods yes)

H.M.Jr: "Titles II and VIII of the Social Security Act of 1935....."

(Hanes comes in)

H.M.Jr: Hello, John. We're just getting started.

".....charged the Treasury with responsibility for collecting the taxes for old age insurance, for administering the old age reserve account, and for making the benefit disbursements certified to it by the Social Security Board. I should like to submit to you today some considerations bearing on these aspects of the old age insurance program."

"Considerations"? Is that best? All right. You might put a question mark there. But I guess we had better not make any more changes; I think this had better be the final draft, don't you think so?

Where is Herbert?

Gaston: I think that's all right.

H.M.Jr: "In 1935 when the Act was under consideration, I urged adoption of a self-supporting contributory....." - I don't like those two "considerations."

Haas: We just saw them the same time.

Duffield: We just saw them the same time. He just told me about them. We'll take care of them, Mr. Secretary.

H.M.Jr: All right, take care of it, will you?

Duffield: Yes.

H.M.Jr: ".....I urged adoption of a self-supporting contributory old age insurance system in which the future tax burdens on the beneficiaries would be lightened by interest earned on a reserve fund accumulated by an excess of taxes over benefits during the early years of the system. I believe now as I believed then that a sound old age insurance system must be on a contributory basis. Our experience in these four years leads me, however, to recommend to you an important alteration in the role which a reserve fund should play in this contributory insurance system."

"Four years ago when the old age insurance program was being planned, we expected that the Act as passed would provide old age security for a fairly limited group in the community. We realized, of course, that many workers who might not be insured under the Act at any one time would later obtain protection by shifting into insured occupations. It was generally supposed, however, that the group so shifting would be small compared with the great mass of workers, who throughout their working life would remain continuously either in the insured category or in the uninsured category."

So far all right, Mr. Altmeyer?

Altmeyer: Sure.

H.M.Jr: I'll stop here, because I think we ought to do this the last time. Anybody, up to here?

All right.

"Because the limited group of employments for which insurance was provided had been selected primarily upon the basis of administrative feasibility, it did not seem fair that uninsured persons should be taxed in order to provide old age benefits as-of-right for the insured group."

That's a new word, isn't it?

Duffield: Well, it's to distinguish from free pension.

H.M.Jr: "I therefore recommended to your Committee in 1935 that the old age insurance system be made self-supporting from payroll taxes in insured employments."

Duffield: I guess that should be probably "on insured employees"?

Brown: No, "employer and employee."

McReynolds: I think you're right as it is.

Altmeyer: Why don't you stop with "taxes"?

H.M.Jr: Pardon?

Altmeyer: Just stop with the word "taxes."

H.M.Jr: "I therefore recommended to your Committee in 1935 that the old age insurance system be made self-supporting from payroll taxes?"

McR: No, I don't think so.

Duffield: I think you've got to tie it up with the insured.

McR: It was an exclusive group at that time. That's what you're trying to say. That was your idea at that time.

Bell: "Self-supporting" carries that.

Viner: "Employers and employees in insured occupations."

H.M.Jr: How?

Viner: "Employers and employees in insured occupations."

H.M.Jr: How should I say it, leave "in insured employments"?

Duffield: The suggestion is that we make it read "from payroll taxes on employees and employers in insured occupations."

H.M.Jr: I think they'll change it. Is that all right with Mr. Altmeyer?

Altmeyer: Yes, it's all right.

H.M.Jr: Read it again. Read it again.

Duffield: ".....from payroll taxes on employers and employees in insured occupations."

H.M.Jr: Anybody not like it? All right.

"Operation of the Act has provided significant information bearing on this issue. This information shows that the extent of migration, temporary or permanent, from uninsured to insured employments is far greater than was anticipated by the President's Committee on Economic Security in 1935. In my last annual report, I pointed out that the consequence of this migration was that the scheduled tax rates were insufficient to maintain the system on the actuarial reserve basis provided by the law."

Altmeyer: You've got to decide whether you're going to use "occupations" or "employments."

- 5 -

Duffield: "Occupations," I think, is a better word.

Altmeyer: You've switched.

H.M.Jr: Which do you prefer?

Altmeyer: I prefer the word "employment" rather than using the plural of either "occupation" or "employment" to speak of the system throughout - "insured and uninsured employment."

H.M.Jr: Let's use that then. We'll change it all the way through. What?

Brown: Yes.

H.M.Jr: All right, Brown?

Brown: Yes.

Dimock: A question about the first sentence in this paragraph. Wouldn't it be better to substitute the word "question" for the word "issue"?

Duffield: I think so.

H.M.Jr: Where is that?

Dimock: Bottom of page two.

H.M.Jr: "This information shows that the extent....."

Duffield: No, the sentence preceding that.

H.M.Jr: "Operation of the Act has provided significant information bearing on this....."

Dimock: ".....question."

H.M.Jr: Much better. Yes. Yes.

All right, gentlemen?

"There is, however, another and more cheerful corollary of this migration. As a consequence of the migration, a much larger proportion of the total population of the United States is qualifying under the contributory system to receive old age benefits than had been

- 6 -

expected. My latest annual report presented the estimate that, without extension of the coverage under the present law, 80 per cent 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."

What I like about the way this thing reads now - I really think the language is the language of a person who is not familiar with this Act - can understand it pretty well. I think we've gotten down now to really good English, which is simple English. Don't you think so?

Dimock: Oh yes.

H.M.Jr: Huh?

Dimock: I have another point here, but I'm beginning to fear that I'm behaving too much like a college professor.

H.M.Jr: Wonderful. We like them around here.

Dimock: How about the use of the word "corollary" with "of this migration"?

H.M.Jr: Can you give me an easier word? That's what you call a non-radio word for me.

Viner: "Consequence."

Dimock: "..... consequence of this migration."

Duffield: "Consequence" is in the next sentence.

Dimock: "Outgrowth" - "result."

Gaston: "Result" is better.

H.M.Jr: "Result." Yes, that "corollary" - I couldn't use that if I were broadcasting.

Duffield: "Result."

H.M.Jr: I was ashamed to ask for an easier word. Thank you.
Now, where are we?

Duffield: "This experience....."

H.M.Jr: "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 the expected interest earnings from the large reserve contemplated by the present law. Therefore, it becomes apparent that the argument for a large reserve does not have the validity....."

Altmeyer: Just a second. That's an important policy decision that's being made. Now, that means that you're saying that eventually the Government should pay 40 per cent of the cost out of general taxes.

Duffield: You think it's not qualified by the next paragraph on page four, Mr. Altmeyer?

Altmeyer: I hadn't read that.

McR: Do you think it will pay less than 40 per cent out of general taxes if you go ahead with this program?

Altmeyer: I hope so. We only suggested paying no more than a third.

H.M.Jr: Let's read the next paragraph, then go back.

"There is no need at the present time and, I believe, there will be no need in the near future, for supplementing payroll 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."

Now, do you want to go back?

Altmeyer: That doesn't qualify this thing at all.

Duffield: Doesn't?

Altmeyer: No.

H.M.Jr: What would you suggest, Altmeyer?

Altmeyer: I would drop off that last part "for the expected interest earnings" or qualify it by saying "for a considerable proportion of the expected interest earnings."

Gaston: Yes, I think that's better.

McR: I'm willing to do that.

Haas: You don't get a measure then.

H.M.Jr: Now how would it read?

Duffield: The sentence beginning at the bottom of page three would read "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 --"

Blough: ".....for a considerable proportion of....."

Duffield: ".....for a considerable portion of the expected interest earnings from the large reserve contemplated by the present law."

H.M.Jr: Do you think that does it?

Altmeyer: Yes.

H.M.Jr: What?

Gaston: That doesn't commit you as to the amount of subsidy. This other would commit you to a 40 per cent subsidy in the peak years.

Blough: It leaves a play, a wide play.

Gaston: Almost.

Blough: Well, it does leave you in this position: that this happens to be the strongest argument that is left in here for getting rid of the big reserve, and it means that if you follow this logically you ought to have a half-big reserve.

H.M.Jr: A half what?

Blough: I'm sorry - a half-sized reserve. If you're going to pay part of it from interest and part of it from general tax revenues, then you need a partial reserve.

Haas: Or raise the payroll taxes.

Dimock: Or raise the payroll taxes.

Gaston: Yes. We just aren't committing ourselves.

Blough: Well, except that you could have said that in 1935: only have a partial reserve and raise the payroll taxes.

Gaston: Didn't have the same reason for it as you see here.

H.M.Jr: What do you say?

Altmeyer: I'd leave it with the play in there.

McR: I think you can prove it, but I don't see how you can leave it out. That's the crux of the argument.

Altmeyer: I agree with you. Hammer that: that that means taxes from some other source in place of the interest. Of course, that goes without saying, but it's well to bring it out every time you can.

McR: What you're saying now is that it's in place of a large share of the interest.

Altmeyer: Yes.

H.M.Jr: Well, you people have been trying to commit me to a three-way plan anyway.

Brown: This leaves a very definite play, Mr. Secretary.

H.M.Jr: Without committing me.

McR: No, you're committed to a three-way plan.

Brown: This leaves a play as to proportions.

H.M.Jr: Yes, but it's going to happen anyway, isn't it, Mac? What?

McR: Sure.

H.M.Jr: Well, I want this statement to be - what was it Mr. Dimock said? He used - (to Dimock) I say I want to continue the policy - you said this was honest, and what else did you say, Mr. Dimock?

- 10 -

Dimock: Yes, "sound."

H.M.Jr: "Sound."

Altmeyer: ".....and attractive."

H.M.Jr: ".....and attractive." Just as long as somebody doesn't say "good politics."

Bell: That goes without saying.

H.M.Jr: Dan says it goes without saying.

"There is no need at the present time....." - I said that, didn't I?

Duffield: Next paragraph.

H.M.Jr: "There is another reason for questioning the schedule of tax rates and the resultant reserve set up in 1935. We adopted a gradual step-up in the tax rate in 1935 in order to give industry an opportunity to accustom itself to the new taxes and so avoid any undue restrictive effects. The trend of business conditions in specific future years could not, of course, then be accurately foreseen. In periods of incomplete business recovery like the present....."

"Like the present" - that's good.

".....the contributory old age insurance system should be so financed as to have the least possible deterring effect on business. It is, therefore, a pertinent question whether a substantial increase in the tax rate should be allowed to occur at the present stage of business recovery." I like that very much.

"The depressing effect on the American economy of the present disturbed state of world affairs makes it especially urgent that at this time we do not place any avoidable burdens on American productive enterprise."

Couldn't that be put the other way around? Couldn't you say "the disturbed state of world affairs....." - bring that up and start the sentence that way? I mean instead of "The depressing effect on....."

- 11 -

Bell: You can say "The depressing effect of the present disturbed state of world affairs on the American economy....."

Duffield: We can say "The disturbed state of world affairs and its depressing effect on American economy makes it especially urgent....."

H.M.Jr: If you could bring the world thing first and rephrase it - I mean make it flow. Could you do that?

".....at this time we do not place any avoidable burdens on American productive enterprise." I like that very much, particularly the "productive enterprise." Don't you like that, Harry?

White: Sorry, I'm a page behind you.

Gaston: Is it a page or a day?

White: A page a day.

H.M.Jr: Harry, it's the first time it's happened; don't let it happen again. I'm usually a week behind you.

Brown: It's my fault, sir; I'm giving him the pages after you read them.

H.M.Jr: Brown, that isn't - you haven't thought that out, have you?

McR: It's the first time you've had Harry on the defensive.

Haas: As you approve it, he gets it.

H.M.Jr: In defense of Harry, he's just recovering from a day before Carter Glass.

All right.

"But, gentlemen, that is only one side of the picture."

Bell: I suggest "gentlemen" come out.

Gaston: How do we get the "gentlemen" out?

H.M.Jr: Mr. Dimock wants to keep this honest.

Dimock: How can you joke about such a serious matter?

- 12 -

- H.M.Jr: All right. I think you'd just say "that is only one side of the picture. Over against these factors affecting business, your Committee will, of course, take into account the possible undesirable effects on the public understanding of contributory old age insurance which may result if the tax rates are not increased at this time, especially if increased benefits are approved."
- Altmeyer: Well, I don't think it's if the tax rates are not increased at this time, but if the tax schedule is disturbed at this time; that's the thing. If we didn't have.....
- Gaston: Yes.
- Altmeyer:a tax schedule, why,.....
- H.M.Jr: All right?
- MoR: Swell.
- H.M.Jr: O.K.?
- Bell: "Tax schedule."
- Altmeyer: "Tax schedule."
- H.M.Jr: All right?
- Altmeyer: (Nods yes)
- H.M.Jr: "With these factors in mind, I recommend the following changes in the Act:
1. We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or increases in the volume of benefit payments. Specifically, I would suggest to Congress that it plan the financing of the old age insurance system with a view to maintaining for use in contingencies an eventual reserve amounting to not more than three times the highest prospective annual benefits in the ensuing five years.
 2. The method of administering the old age"
- All right, everybody?

- 13 -

Duffield: Does that meet your suggestion of this morning, Mr. Altmeyer?

Altmeyer: Yes.

H.M.Jr: "The method of administering the old age insurance reserve fund should be changed so that it will be made clearer to everyone that it is a trust fund established for the benefit of the insured who have contributed to it. I recommend the creation of a board of trustees....."

Now, this is a suggestion that I just want - it isn't a suggestion, I want to raise a question right here. It's on my mind, and it may be entirely improper to put it in, but I want to raise it - that in connection with creating this trust fund - I mean, to use the vernacular, that I want to protect it against possible raids from over-zealous people.

Duffield: We had some language like that written, Mr. Secretary, and it was taken out because there was a good deal of discussion about the possibility of somebody coming back from the other side and saying that we had raided it to finance general expenditures in the last few years.

H.M.Jr: We might be accused of being the raidees.

Viner: The raiders.

H.M.Jr: What?

Viner: The raiders.

H.M.Jr: The raiders. I pass that suggestion.

McR: Well, we all voted against it last night.

H.M.Jr: All right.

Altmeyer: On account of a guilty conscience, Mac?

McR: No, no, it wasn't on account of a guilty conscience. As far as I was concerned, it was largely on account of the fact that we would have been ticketed as on Vandenberg's bandwagon if we had done that.

H.M.Jr: But you did think about it?

McR: Discussed it at great length. The boys had it in because they understood they were instructed to put it in. Herbert Gaston took the responsibility for taking it out.

H.M.Jr: I see.

"The method of administering the old age insurance reserve fund should be changed so that it will be made clearer to everyone that it is a trust fund established for the benefit of the insured who have contributed to it. I recommend the creation of a board of trustees for the fund to be composed of the Chairman of the Social Security Board, the Secretary of Labor, and the Secretary of the Treasury. The Secretary of the Treasury would be the managing trustee for the fund. This system of trusteeship is similar to that used in the Postal Savings System under which the Government for many years has been acting as custodian of private savings."

Altmeyer: Just a point of information there, Mr. Secretary. Is this identical with Postal Savings?

Duffield: The trusteeship is not identical; the trustees for Postal Savings are the Attorney General and the Postmaster General and the Secretary of the Treasury. And all this says is that the trusteeship is similar.

Altmeyer: But I mean the mechanics are identical?

Dimock: Wouldn't it be better to say "somewhat analogous"?

Duffield: The trusteeship is the same.

Haas: Similar in that there are three in both instances.

Duffield: And they are Cabinet officers.

Bell: And one is managing director - Postmaster General.

McR: I don't think it ought to be changed. I think it's entirely justified - what we've said about it is entirely justified by the tax.

H.M.Jr: You don't think it ought to say "is somewhat similar to that used in Postal Savings"?

Duffield: I think we have legal authority for doing this. You (Tietjens) asked Ed to look into it.

Tietjens: I think "similar" is a better word.

H.M.Jr: Are you (Dimock) satisfied?

Dimock: I don't think it is similar. I think it is analogous, but.....

H.M.Jr: Would you feel happier if you said "somewhat similar"?

Duffield: You might as well not say it.

Brown: The word "similar" doesn't mean a facsimile, absolutely identical, does it?

Duffield: We would have said "identical" if we meant it.

Altmeyer: You can say "is like" if you want to use a nickel word.

H.M.Jr: "Analogous" is.....

Altmeyer: That's too good a word.

H.M.Jr: What?

Bell: Two-dollar word.

Altmeyer: Two-dollar word.

H.M.Jr: That's all right.

Altmeyer: "Analogous" - that seems to indicate a hedging on the thing; that, I think, weakens it very much. I'd like to use "similar" or "like," because then it's language that a working man can use for himself.

Viner: But there is the important difference that the Postal Savings people are trustees for each individual depositor, and he can get his funds back, whereas.....

Duffield: This doesn't discuss the system; it's the trusteeship.

Viner: You say "This system of trusteeship."

Duffield: Let's say "this trusteeship."

Viner: This setup is similar.

Duffield: No, it's not.

Altmeyer: I see the point. You might be jumped on.

H.M.Jr: Come on, lawyer. We've got one lawyer. Talk.

Tietjens: I'd say "similar" is perfectly all right.

H.M.Jr: What?

Viner: Say that "insofar as the circumstances are alike, this follows the model of the Postal Savings System."

Duffield: I have a somewhat similar suggestion; I'd say "this board of trustees is similar to that which has been used in the Postal Savings System." "This board of trustees" - that's all we mean to say.

Bell: I think that's better. You've got to take out "System." The two systems are not analogous or similar.

Viner: But have functions similar.

Haas: The functions are different.

Duffield: "This board of trustees....."

H.M.Jr: How would this be: "The idea of a trusteeship is similar to that used in the Postal Savings."

Altmeyer: Well, of course, Viner makes the point that that is a trusteeship for the individual depositors and this is a trusteeship for the beneficiaries collectively.

H.M.Jr: I'm satisfied to use the word "analogous."

Viner: The proprietor of the deposits is still the depositor.

H.M.Jr: I'm willing to use the word "analogous." Would "analogous" satisfy everybody? What? Let's use - that was your suggestion, wasn't it?

Dimock: Yes.

H.M.Jr: Put it in. Instead of "similar," use the word "analogous." All right, Jake?

Viner: I'd say "somewhat analogous."

H.M.Jr: Get together, Chicago, back there.

- 17 -

Dincock: That was my original suggestion. I agree with Viner.

Viner: Or I'd leave out the reference to Postal Savings, avoid an unnecessary issue.

H.M.Jr: I'd like to say that.

Viner: You can raise the same sort of issue that was started on the other trust fund; say "it's similar but it's different" - start raising all the differences.

H.M.Jr: What do you say, gentlemen?

Brown: Rather than lose it, I'd say "somewhat analogous."

Duffield: That's pretty weak.

Gaston: Could you say "this follows the precedent established in the case of the Postal Savings"?

Viner: Or "insofar as circumstances are similar, it adopts the model of the Postal Savings."

Haas: Under this one, the Secretary manages the fund himself.

White: "Similar in principle"?

Tietjens: Aren't you describing just the mechanics of how the fund is set up and not what you can do with it or who it goes to afterwards? It doesn't seem to me that it carries all those implications with it.

Gaston: I think Harry's suggestion, "similar in principle," is pretty good.

Brown: That saves it, doesn't it? "Similar in principle."

Viner: I think it's better certainly than claiming similarity without qualification.

H.M.Jr: Is "similar in principle".....

Viner: Yes, then that gives you an out.

H.M.Jr: What do you think?

Altmeyer: I'm disturbed about Viner's question. I wish he hadn't raised it: that in one case it's for the account of the individual recipients, and in this case it's for those collectively. In other words, we're not

- 18 -

creating individual rights here, and we don't want to ever get ourselves in the position of creating individual rights, because that licks us for all time to come to change the system.

Duffield: I don't see why that's implied.

McR: I don't see it at all.

Tietjens: That's a comparison between the Social Security System and the Postal Savings System.

McR: Your trusteeship so far as Postal Savings is concerned is for purposes of management. The United States Government is responsible to the depositor in Postal Savings for getting his money back. The trustee is there for the purpose of management of the fund and keeping it intact. Now you've got exactly the same thing here and I have no objections to the way it is written.

Viner: Well, would this be better: that "This system of trusteeship, in its managerial aspect"

McReynolds: You've got too many words there.

Duffield: This now reads this way, if you want to see how it is now: "This trusteeship is similar in principle to that used in the Postal Savings System."

Haas: "The management of the Postal Savings System."

Dimock: How about this word.....

H.M.Jr: Go ahead.

Dimock: "The trusteeship principle resembles that which is in operation in the case of Postal Savings."

Gaston: You're saying too much about it.

Blough: That's about the appointment of the trustees.

Altmeyer: "Such a board of trustees would be similar to....."

Viner: You certainly have to leave out the private savings, because the private savings continue to be private property.

- 19 -

Brown: "Such a board of trustees would be similar to that....."

Altmeyer: ".....set up under the Postal Savings."

H.M.Jr: How have you got it now? Say it again.

Altmeyer: "Such a board of trustees would be similar to that set up under the Postal Savings System."

Bell: "Postal Savings Act."

Altmeyer: "Postal Savings Act."

Blough: Period.

H.M.Jr: How does it read, Gene?

Duffield: "Such a board of trustees would be similar to that set up in the Postal Savings Act."

Haas: That's it.

H.M.Jr: Everybody happy?

McR: I don't think you can challenge that at all.

Haas: There are three in each case.

Altmeyer: We aren't responsible, Mac, if they go around saying this is the same as the Postal Savings; we haven't said it.

H.M.Jr: What a man!

Dimock: You could make it even stronger, I think, or at least more generalized, by saying that the trustee principle is one which is used very widely by modern day governments, because it takes in all those public trusts like they have in Great Britain, for example.

H.M.Jr: Well, if you don't mind, I think it just gives Altmeyer a chance through his agents to say, you know, it's like the Postal Savings; but I still haven't said it. You see?

(Altmeyer laughs)

H.M.Jr: Are you (Viner) unhappy about the way it's done?

Viner: It's all right now to me; I didn't want this "custodian of private savings" to go in.

H.M.Jr: You people on the mourners' bench there - all right?

Viner: All right now.

H.M.Jr: Mr. Dimock, all right?

Dimock: I don't know, I think it's rather weak now; I don't know whether it accomplishes the purpose originally in mind, to refer to ^{an} analogy.

Bell: Does he understand the Postal Savings System?

Duffield: Much better to leave it general.

McR: I'm perfectly happy with the change. I think you get the point in. There is a lot of significance to the fact that this has been handled as a trusteeship by the Postal Savings; it's recognized. I'm perfectly happy. I think you've got it protected.

H.M.Jr: O. K.

"I also recommend the establishment of an 'old age insurance trust fund' to be held in trust by a board of trustees of the fund and to be deposited in a special deposit account with the Treasurer of the United States. The old age insurance trust fund would be made up of (a) contributions collected under Title VIII of the Social Security Act, (b) income accruing to the trust fund, and (c) any other money appropriated thereto by Congress, including the balance now carried in the old age reserve account.

"The board of trustees should report annually to Congress on the operation and status of the old age insurance trust fund during the preceding fiscal year and on its expected operation and status during the next five fiscal years, reporting and estimating the income of the fund, its disbursements, and its assets. The board of trustees should report from time to time to Congress on the actuarial position of the fund. It should also make a special report to Congress whenever the trustees believe that during the ensuing five years the trust fund will exceed three times the highest annual expenditures anticipated during that five-year period. The trustees should also report to Congress when they believe the reserve is falling unduly low."

- 21 -

I think that's a swell paragraph; there's a mouthful in that paragraph.

"3. To improve public understanding of the purposes for which the funds are collected, I recommend that the taxes under Title VIII be termed 'contributions' levied under the Government's taxing power. This terminology has already been used in the Railroad Unemployment Insurance Act.

"The change to a contingent reserve system of old age insurance must necessarily influence the rates at which the Government should collect contributions."

Altmeyer: Pardon just a second. Are you going to use the word "contingent" or "contingency"? I see you're vibrating between the two.

Duffield: That's what we'll do.

Altmeyer: You want to vibrate.

Viner: I think it ought to be "contingency reserve system."

White: It's not a contingent reserve; the reserve exists for a contingency.

H.M.Jr: Stop vibrating and make it "contingency." All right.

"I must advise Congress that acceptance of a contingency reserve basis means that at some future date either payroll taxes will have to be higher than the present Act provides or there will be a deficiency which the Government will have to make up from other tax sources.

"On the other hand, if a contingency reserve system is adopted and if the schedule of tax rates provided in the Social Security Act remains unchanged, we may have for a few years, unless benefits are increased substantially, a reserve fund somewhat larger than would be necessary under the standard I have here suggested. However, the early annual disbursements of benefits are neither representative nor can their

-22-

amount be accurately forecast at this time. Consequently, it may be desirable to anticipate a somewhat larger contingency reserve during the first few years of benefit payments. In addition, the contributory old age insurance principle would be jeopardized if, for the purpose of reducing the reserve, the rate of contributions was reduced or inadequately increased during the period when the public had not yet come to understand completely the essential dependence between contributions and benefits.

"I submit for your consideration four alternative rate schedules for old age insurance contributions. They differ only as to the rates which would apply during the next three years. The rate schedule which will be most in harmony with the maintenance of a contingent..." - would be "contingency," wouldn't it?

Duffield: Yes.

H.M.Jr: "... contingency reserve on the standard previously proposed will depend on the benefit provisions finally adopted by Congress. These alternatives are as follows:

All right so far?

Altmeyer: Well, I'm disturbed by that language at the top of that page, where you say "a reserve fund somewhat larger than would be necessary under the standard I have here suggested," because you're suggesting a maximum and it won't be larger, will it, Reagh, than the maximum suggested?

Duffield: Maximum? I thought we had worked that out this noon, that it was all right - the language was.

Reagh: On the basis of your estimates of benefits, the maximum would probably be about twice.

Altmeyer: Then this doesn't make sense, does it? It isn't

Duffield: Can't keep up with the actuaries.

Reagh: I tried to make that clear, that it never gets over twice.

-23-

Blough: Even under existing law?

Duffield: I thought we went back again - after considering this thing, we went back and said that it would not on the basis ...

Reagh: Not on the highest of the five, highest in five years.

Blough: That's even under existing law.

Reagh: That's right.

Cohen: But in the first couple years it's more than two and a quarter, isn't it?

Reagh: About two and a quarter in the very highest one. Existing tax schedule, I mean. You're not referring to existing benefit schedule.

Blough: Yes, I am referring to existing benefit schedule.

Reagh: Why, that's quite likely; yes indeed.

Duffield: Yes; there, you see, it's all right as it is.

White: This term "contribution" - I suppose it's much too late to register any protest.

H.M.Jr: Harry, just one second. Could you hold it a minute?

White: Oh yes, I can hold it a long time.

H.M.Jr: I want to ask whether Altmeyer is satisfied.

Altmeyer: You say the language is all right?

Duffield: If you maintain the present scale of taxes and the present scale of benefits, the language is all right.

Reagh: That's all right, because under the existing benefit schedule it could exceed; but not under any of the proposed benefit schedules.

Altmeyer: I see.

H.M.Jr: You satisfied?

-24-

Altmeyer: Yes.

H.M.Jr: White?

White: This term "contributions" troubles me a little. I presume you've gone into it carefully. I can see the justification for the term "a contributory system," because that has acquired a definite significance in social security literature. It means a particular kind of system. But when you apply the term "contribution" to a kind of tax under the assumptions that it is a quid pro quo - that they'll receive a quid pro quo some time in the future and that therefore it is not a tax but a contribution, it implies that all other forms of taxes, to my mind, are of a different character, something for which they do not receive a quid pro quo, and I rather object strenuously to that distinction. Probably it's too late. I don't think you could get away with that - calling it a contribution.

Haas: Brown said most of the other countries do that.

White: Do they?

Haas: It's sort of an eye-wash, necessary eye-wash.

White: It makes taxes more unpalatable.

Brown: There are distinctions.

Viner: This doesn't say that other taxes are not contributions. It says these taxes shall be called contributions.

White: It does so by implication.

Brown: Call it assessments.

White: "Assessments" would be a good one.

Brown: But the age-old term for social insurance payments is "contributions," just as "assessments" is used for other special purposes and "taxes" is a general word.

H.M.Jr: What do you think, gentlemen; nothing is too late if we're wrong.

-25-

Gaston: I think "contributions" is all right.

H.M.Jr: What?

Gaston: I think "contributions" is all right.

McR: I'd be very unhappy if you took "contributions" out.

Haas: Harry didn't notice we put quotations around "contributions."

H.M.Jr: Harry, you know who initials your requests for increases for your staff.

White: We want to keep him (McR) happy.

H.M.Jr: Where are we now?

Brown: Top of 10.

H.M.Jr: "1. Leave the present rate schedule unchanged, that is, 1 percent on employees and employers each from 1937 to 1939, inclusive, increasing to 1½ percent on each in 1940, to 2 percent in 1943, to 2½ percent in 1946, and to 3 percent in 1949."

I needn't read all these. I take it they're accurate. I'll go down to

"You will observe that all of these plans provide for the existing schedule in 1943 and thereafter."

You don't want to use the word "tax schedule"? Just "schedule"?

Bell: "Contribution schedule."

H.M.Jr: You don't want to qualify "schedule"? No?

Hanes: "Schedule of payments." No, that's all right. I'd leave that.

H.M.Jr: Just leave it, not rub it in, huh?

Hanes: No.

H.M.Jr: Okey-doke.

-26-

Bell: "Rate schedule."

H.M.Jr: No. You think it has to be qualified, Jake?

Viner: "ell, you said "existing schedule of rates" or "existing rate schedule."

Altmeyer: May I point out that at the top of the page you say "present rate schedule," but in two and three and four you speak of "tax rates."

Viner: "... increase the rates on each..." - let's leave out the "tax."

Altmeyer: I think the terminology ought to be uniform all the way through.

H.M.Jr: God, this crowd is tax-shy, aren't they!

In two it would be "increase the rates on each," huh? In three it would be "increase the rates."

Duffield: Four.

H.M.Jr: Four - "increase the rates." We just won't have taxes any more.

Gaston: Aren't they going to be confused with benefit rates?

Duffield: Seems to me so.

H.M.Jr: Huh?

Gaston: They might be confused with benefit rates.

Hanes: Not if you read on.

Altmeyer: I'd leave the word "tax." It's a - that's what we're calling it now. You're suggesting a change, but now it's called a tax. You can't get away from the present terminology when you're speaking about the present.

Viner: You can put it "rates levied" and then there's no question.

-26-

H.M.Jr: Look, we start with number one - "Leave the present rate schedule" - either put in the word "tax" there or leave it out in the rest of the places.

Bell: put it in.

Hanes: Why not "increase the rate schedule"? Follow the same language all the way.

H.M.Jr: "Leave the present rate schedule," then

Hanes: "...the rate schedule on each..."

H.M.Jr: What?

Hanes: Keep it uniform all the way through.

Brown: One and two are different. One constitutes a schedule as a whole, and in two and three and four you're talking about rates as specifically changed.

Blough: It's the word "tax," though, that's coming out.

Brown: I should think the way it is now is perfectly all right.

Blough: Except for the word "tax," which isn't uniform.

Brown: Well, "tax..."

McN: No taxes are uniform.

H.M.Jr: It's a tax rate. I don't see any - I'm willing to call it "increase the tax rates on each, employees and employers..." What?

Altmeyer: It's a rose there by any other name that smells sweet.

White: Change your mind since page four?

Altmeyer: No, but I say that's for the future; this is the present.

Viner: We haven't changed the language yet by law.

H.M.Jr: Bell points out that on page 9, the last paragraph,

-27-

I say, "I submit for your consideration four alternative rate schedules"

Bell: "... for old age insurance contributions." Then you say, "These alternatives are as follows:" You don't need, it seems to me, anything but your "schedules."

H.M.Jr: And you would leave

Bell: Cut out both "tax" and "rate," if you want to.

H.M.Jr: You can call it "schedule."

Duffield: "Leave the present schedule unchanged." And what you going to say, "Increase the schedule on each"?

Blough: No, "the rates."

Brown: "Rates" there, because it's different year by year.

Duffield: I think it adds to clarity to put the "tax" in.

H.M.Jr: How would you do it?

Duffield: "Leave the present tax rates unchanged" and start each one of them with "Increase the tax rates," so and so.

H.M.Jr: How did you have it in the first, top of page 10?

Duffield: "Leave the present tax rates ..."

Blough: "...schedule..."

Brown: You don't have to have uniformity between one, and two, three and four, because one deals with a whole schedule.

H.M.Jr: All right. One just says, "Leave the present rate schedule unchanged." That's all right, Gene; leave it the way it is. Put it back the way it was.

Duffield: All right.

H.M.Jr: You (Altmeyer) don't like it.

-28-

Altmeyer: No, I don't care. I think it would be understood.

H.M.Jr: I mean like it was before we started to fussing with it - just the way it was.

All right back there, gentlemen?

"You will observe that all of these plans provide for the existing schedule in 1943 and thereafter."

That's all right.

"I should like also to place before you four tables which show annual contribution collections, annual benefit payments and the size of the old age reserve fund over the next few years under each of the four contribution schedules. In preparing these tables the Treasury has used for illustrative purposes the intermediate estimates of ..." - that's a new word; "intermediate estimates" you're going to call it instead of "high-low." Don't you like "high-low"? Wasn't it

Altmeyer: It was called the "medium-high" before, wasn't it?

Cohen: Medium-high.

Brown: Anything to do with the size of hats?

H.M.Jr: "Intermediate estimates" - that's what you people like, huh?

Altmeyer: I don't know whether I like it, but "medium-high" isn't good.

Duffield: Best we can do.

H.M.Jr: All right - "intermediate estimates..."

Duffield: It's all right.

H.M.Jr: "...intermediate estimates" in brackets; put after it the word "Altmeyer" - "... of benefit payments based upon the proposals outlined by the Social Security Board in its report to Congress. These estimates were supplied to the Treasury by the Board

and their inclusion of these estimates in the Treasury's tables does not imply either approval or disapproval of the benefit plans which underlie the estimates."

Viner: Don't you mean "the inclusion"?

Duffield: No - "and their inclusion in the Treasury tables..."

H.M.Jr: "... does not imply either approval or disapproval of the benefit plans which underlie the estimates."

That's all right.

"This material, I hope, will assist you in determining how rapidly contributions should be collected and how large the contingency fund should be."

Viner: I should think that would be "in determining at what rate contributions should be collected."

H.M.Jr: "...at what rate"?

Blough: "...at what rates..."

Viner: "...rates..."

H.M.Jr: All right. All right?

Altmeyer: (Nods approval)

H.M.Jr: "...at what rates contributions shall be collected" instead of "how rapidly"?

Viner: Yes.

H.M.Jr: "... at what rates contributions shall be collected and how large the contingency fund should be."

"Our experience under the Social Security Act has been very brief. We have been collecting taxes under the old age provisions of the Act for only slightly more than two years. We have not as yet had any experience with the payment of monthly benefits. Periodic re-examination of the Act, therefore, is essential. I suggest that prior to 1943 Congress again comprehensively re-examine the

-30-

financial provisions of the Act."

Instead of saying, "I suggest," would it be all right to say, "I think it is most important that prior to 1943 Congress...." Is that all right?

"I think it is most important that prior to 1943 Congress again comprehensively re-examine the financial provisions of the Act. Pending that re-examination, however, I believe that the tax rates for 1943 and thereafter which are now in the Act should be retained so that there shall continue to be a definite program for financing old age insurance on the statute books.

"I firmly believe the old age insurance program of the Social Security Act constitutes a great and far-reaching constructive program."

I'm glad you put that in.

"Its planning, initiation and operation have been a tremendous task. That task has been successfully carried forward over the past four years. With proper revision, the Act will provide a means of protecting millions of our people against dependent old age. It will protect them through enhancing their capacity to help themselves and in planning for a self-reliant old age. It will protect them and our society from the dangers of paternalism."

I think that's all to the good.

(To Mrs Klotz) That last there - that's all new.

Klotz: Yes.

H.M.Jr: I'm very happy over this. I want to thank everybody tremendously.

Altmeyer: There is one thing that I'd like to ask you, one thing I'd like to raise a question about that I think is all right; and that is whether you want to go on record relative to going from this guaranteed three percent interest rate to the average rate. You see, we discussed that.

-31-

H.M.Jr: What?

Altmeyer: No mention is made of it.

H.M.Jr: Don't I do it by implication?

Altmeyer: No.

H.M.Jr: I don't?

Brown: We discussed that. It's a question of policy, sir. It gets into a rather detailed explanation. There was a question of whether it should go into this statement, involving as it does a rather detailed explanation. On the other hand, we did discuss whether it could be said in a sentence or two.

Duffield: I was going to suggest that on page 6 if you wanted to put in a sentence which would be very general, you could say, "The Secretary of the Treasury should be the managing trustee for the fund, with authority to invest it in Government obligations yielding an average return of ..." - whatever this formula is.

H.M.Jr: I'd like before you say that - unless there's some good reason I don't know about, I don't want to muddy the waters by raising the question of the 3 percent rate. In other words, I'd rather leave it at 3 percent.

Bell: I think it's a detail which should be worked out in drafting the Act. And as I recall the memorandum that you read the other day, they took out the authority from the present Act to issue special obligations. Now, I think that our experience in the past year justifies the authority that you have to issue special obligations, because you certainly couldn't go in the market at the present time and invest 50 million dollars.

H.M.Jr: You want to leave it there?

Bell: I certainly do want to leave it. I don't care what rate they use. I certainly want them to leave the authority to the Secretary to invest either in the market or special issues.

-32-

- H.M.Jr: I want to make my point a little clearer. I don't want to put something in like lowering the interest rate which would make the people who are investing in this fund think that I am unfriendly to the fund, because I'm doing so much which is new and I'm a friend of the fund that I'd like to leave the 3 percent thing, or leave it just - that part of it just the way it is now, Dan, see?
- Blough: That's really why it wasn't put in in the discussion.
- H.M.Jr: See? Because I'm doing so much, I don't think anybody who is insured under this can interpret that I'm trying to sabotage the fund. I don't think that's been raised, but if I lowered it from 3 percent they'd say, "See, that's what Morgenthau is doing; he really doesn't believe in this thing." See?
- Altmeyer: Yes.
- H.M.Jr: So I'd like to have it - you see, what Dan and I and the rest of us are up against - take Postal Savings; we've got 75 million invested in a special 2 percent note. Now, we'll hold that until there is a break in the market - there always has been a break in the Government bond market - and when there is a sharp break we will go in and invest. We'll wait. In the meantime they're earning 2 percent. If we went in the market and bought, we couldn't invest for them - the best rate today would be what?
- Bell: 2½ - the longest.
- H.M.Jr: 2½, and we'd have to pay this tremendous premium.
- Bell: Not only do that, but push the market up several points by trying to invest.
- H.M.Jr: So we'll wait until there's a sharp break. We give them a certificate earning them 2 percent. But I'd like to leave the 3 percent thing alone, leave it just as it is, so I can't be attacked on that front. I think it helps you for me to take that position, doesn't it?

-33-

- Altmeyer: Oh yes. The only reason I raise it is this: that Vandenberg and people like that say you ought to invest in either outstanding issues or original issues. I don't know whether you've got enough open-end issues, whether that would tie you down or not. Now, you can't do that if you've got an arbitrary 3 percent rate; you'd have to invest in these special issues because you've got none that yield that much.
- Reagan: Have difficulty, anyway.
- Reagan: What you want is both.
- H.M.Jr: Ought to be able to do both. But whichever way it is now, I'd like to leave it.
- Bell: We can do that now - original issue in the market or special issue.
- H.M.Jr: Because from our standpoint it's - the Treasury standpoint, it's perfect, isn't it?
- Bell: Absolutely.
- H.M.Jr: And there's been no complaint from the fund standpoint. I can defend that, because right now I can't buy anything without putting the market up a couple points.
- Altmeyer: They've been calling these things on us, and from a psychological standpoint there is great advantage if the investments are the same as you'd sell to the public, if you've got open-end issues that are available. In other words, I think from a psychological standpoint it's much better to take one of these than issue special obligations.
- Reagan: Do you want to be prevented from buying in the market except at a 3 percent rate? That's the existing law.
- Altmeyer: I say I agree with the Secretary there's no use in sticking in this 3 percent; what I'm talking about is, what is in your mind when it comes to the drafting?
- H.M.Jr: I'd like to leave that part of it just as it is.

-34-

- Bell: Well, I would certainly like to leave it as it is for this discussion, but when the Committee gets down to drafting an Act and they raise that question, I think we could consider it. I don't think it makes much difference what rate it is as long as we're going off of the full reserve. And at that time I think we might consider changing the rate to the average rate of the public debt.
- H.M.Jr: Well, I'd like to have time, but after all I'm going up there tomorrow, the first person for the Administration to testify - I'm taking this plunge in this cold water - and when I get through I'd like to have it felt that the Administration still believes in the Social Security Act, and I think I'd be very vulnerable if I began to talk about lowering the rate from 3 percent to 2½ or 2, and they immediately could attack me there. As far as I can tell, I'm not - my whatever sense I have - I don't - I can't see that I'm vulnerable. And quite to the contrary, I think - I hope I'm right - that looking at it, as I put it this morning, from the standpoint of 130 million people, I think it's a good document.
- White: One suggestion: whether you would consider striking out the word "financial" in the phrase "I suggest that prior to 1943 Congress again comprehensively re-examine the provisions of the Act."
- Duffield: Well, the only point here - the Treasury's staying out of the benefit side of the thing; Treasury's staying out of the benefit side of the thing.
- White: Because obviously an Act of this kind, which is supposed to prevail over a period of several generations, will have to be subject to change.
- Duffield: That's what we're saying.
- H.M.Jr: But I think that - I get the point - I think I better keep it on the financial basis, Harry.
- Dimock: There's another question
- H.M.Jr: How do you like it, Harry?
- White: Strikes me as very good.

-35-

H.M.Jr: Like it from the standpoint of looking at it as a whole?

White: Very good. The only thing I'm troubled about - I'm sure that's been carefully considered - is that the excuse for the shift in position is a little bit thin. But if I knew more about it, maybe it would be thicker.

Gaston: It is thin, Harry.

H.M.Jr: What?

Dimock: There is another question, if you have time.

H.M.Jr: I have all the time you'll give me.

Dimock: At the top of page 9 there is a sentence which, if taken out of its context and quoted, would conceivably lead to misinterpretation. The sentence reads as follows: "However, the early annual disbursements of benefits are neither representative nor can their amount be accurately forecast at this time." One word that trips me up is the word "accurately." The man in the street is liable to say, "Why not accurately?" Wouldn't it be better to say "precisely"? And then the word "representative." Unless somebody knows something about this subject, he'll say, "Why aren't they representative? Does that mean we're going to get much less?"

H.M.Jr: What would you suggest?

Dimock: That's harder to correct.

H.M.Jr: Could you leave out that sentence entirely? Wouldn't it go just as well?

Duffield: That's the excuse so that you don't

Brown: Pretty important.

H.M.Jr: The sentence is?

Brown: I'd say "precisely" is all right. I think "representative" is the word.

-36-

Dimock: well, how would you explain that yourself? What does that mean?

Brown: Well, taken as a sample, it is not a good sample of what will occur as the system matures.

Altmeyer: Well, do you mean are neither representative of their magnitude - would that help, to put in a phrase to define "representative"?

Dimock: Why couldn't you put in parentheses a statement that "because of the smaller magnitude," or something like that

Brown: I don't know whether it simplifies or it confuses. I mean the word "representative" is a fairly well known word; it means, is it a good sample?

Bell: Why hasn't the Secretary said enough if he says "... the annual disbursements of benefits cannot be precisely forecast at this time"?

Brown: "... in the early years..."

Reagan: Well, there's another point there, that they're so much smaller in the early years; that's the important thing here.

Klotz: I think it's all right.

Brown: Well, it says both those words; that is, they "are neither representative..." - that is, they can't be taken as a good sample of what will occur later - "...nor can their amount be precisely forecast at this time." There are two meanings there.

Haas: You could say "normal in amount" or something like that.

Brown: "...not normal..." - but "normal" has other connotations. "Typical"?

Haas: "...normal in amount" does it.

Brown: "...normal in amount" - that's all right.

H.M.Jr: well, let's go around here.

Duffield: I like this better.

Brown: I like it the way it is, really. I think it says what it means. The word "precise" is all right.

H.M.Jr: I've still got time if anybody has another thought.

Dimock: I have one other thought.

H.M.Jr: Do you want to get a four o'clock (to Brown)?

Brown: Sorry, Mr. Secretary, I'm supposed to go with Mr. Viner at four o'clock.

H.M.Jr: Going to New York?

Brown: Yes, sir; I have an appointment up at Princeton.

H.M.Jr: Can't be here tomorrow?

Brown: I just can't, sir.

H.M.Jr: I've gotten the most Very much obliged.

Brown: Thank you very much.

H.M.Jr: Thank you tremendously, a lot.

Viner: Good-bye.

H.M.Jr: Ever so much obliged. I'll just step out a minute with you.

(H.M.Jr. goes out with
Viner and Brown)

(H.M.Jr returns)

H.M.Jr: Well, I - now, are you (Altmeyer) satisfied?

Altmeyer: Yes.

Duffield: Only one other thing, Mr. Secretary. Do you want to see the tables which are - the four tables?

H.M.Jr: You stay behind a minute; I'll see them.

Well, everything all right? Right. You're (Altmeyer) coming up, aren't you, tomorrow?

-38-

Altmeyer: Yes. But I want to ask you some questions. I mean I want - there are three questions I think you're going to be asked....

H.M.Jr: All right.

Altmeyer: ... that I think the answers ought to be

H.M.Jr: Go ahead, please.

Altmeyer: "First, Mr. Secretary, as a member of the Committee I should like to know whether you favor keeping the eventual benefit costs of this old age insurance system at the present level or reducing it or increasing it?"

H.M.Jr: Now, come over and sit on this side of the room, figuratively speaking. How should I answer that one?

Gaston: What do you mean by eventual?

Duffield: I'd say that was a matter for the Social Security Board.

Altmeyer: It's a cost proposition for the Treasury, too.

White: How is it possible to answer that question until one knows more about what the future has in store for us?

Altmeyer: I'd say, "Well, I'd be very hesitant about amendments that would increase the eventual cost of this system" - something like that.

White: Not quite the same thought as I expressed. It seems to me diametrically opposed. But how is it possible for anyone to determine the adequacy or the justification of any given amount of benefit payments in the distant future?

Blough: This is just his policy, though, now.

White: I didn't understand the way you put your question.

H.M.Jr: Well, frankly, if I get anything like that, I'm going to say, "Mr. Altmeyer, would you mind answering that

-39-

question?" And I never hesitate to do that.

Altmeyer: We've answered it in our report; recommended that the eventual costs not be any greater, that any schedule of benefits that's developed ought to result in a cost

White: That's the Social Security Board's recommendation.

Altmeyer: Yes.

White: It need not be the Secretary's.

H.M.Jr: I'd duck it. I'm awful good at that, too. Now, let's have some more.

Bell: You pass.

H.M.Jr: Yes. That's all right. Got some more questions?

Altmeyer: Yes. Well now, then another recommendation we made was that you combine, or Congress combine, the tax titles, or in lieu thereof at least make the definitions of coverage or the base the same. That's Titles VIII and IX. What's your reaction to that?

H.M.Jr: Oh, I'd simply say, "Gentlemen, I've just studied this program from the standpoint of what I have said in my statement, and I haven't got anything to add to this statement. I haven't gone beyond what I've got in this statement. If you want anything else, the representative of the Social Security Board is here to ..." I mean I just wouldn't get into it. I'm only going to talk on what I actually know. I'm not going to bluff.

Altmeyer: Before we get very much further along in these hearings, they're going to start asking us for figures, all kinds of figures, and they'll want to know up to 1980 on this kind of a base, that kind of a base, every other kind of a base, what it's going to cost. What is going to be the policy of the Government? Are we going to try to make guesses like we did four years ago until 1980, then find we've got a 50 percent margin of error?

-40-

- H.M.Jr: My answer is, we're coming in, we're estimating for ten years, and we are suggesting Congress restudy it in three years, and that I don't think anybody can go beyond that.
- Haas: The tables show it until '55.
- H.M.Jr: Pardon?
- Haas: The tables show it until '55.
- H.M.Jr: I thought you boys said to cut it off at '49.
- Altmeier: That's the tax rate. Tax rate stops at '49.
- White: Do the same thing for fifteen years; still remains sound.
- H.M.Jr: I thought they weren't going beyond '49.
- Haas: '55.
- H.M.Jr: I've seen - the '55 is what I took to the President because it has to run to '55 to begin to show a deficit.
- Gaston: If I were a member of the Committee, I think I'd protest very strongly at that kind of an answer. I'd say, "Here's a program that contemplates a steadily increasing cost for old age benefits. There must be a maximum some time. Just give us an idea what that maximum is, and when."
- White: Why wouldn't that be an appropriate time for an actuarial expert to describe the number of factors which are currently unknown and which would modify substantially any estimate, which make it impossible for anybody with reasonable certainty to give a reliable estimate, in view of the factors which are unknown?
- Reagh: We're just about accurate for twenty years from now as we can be in the first year. In fact, our first range in 1940 is from 75 million to 372 million. We aren't going to be any worse off until we go to 1980.
- H.M.Jr: The answer - I'll say, "My guess is as good as yours. If you want experts, we've got experts here who can

-41-

testify."

Gaston: My point was just simply that we ought to be willing to let our experts testify, qualifying their testimony in any way they want to, but giving their best guess.

H.M.Jr: That's all right.

Go ahead, Mr. Altmeyer. Is that all?

Altmeyer: Yes.

H.M.Jr: Now, what I'd do is this. When I'm stumped - I mean not just because the question is difficult - but if I don't want to answer - I can take it - but when it's a question which needs an expert, I never hesitate to turn and ask one, see? And what I thought was that we would not show this in advance to Jere Cooper and the rest, and I'm not going to give them preparation to think up a lot of questions, see? I'm taking this cold plunge before you with my eyes partially open.

Altmeyer: I was on for two hours two months ago. That's a long time ago.

H.M.Jr: I know; a lot of things have happened since then, including Memel.

Blough: Mr. Secretary, you will likewise sidetrack questions on the Townsend plan and all that sort of thing?

Altmeyer: Oh yes, that's another serious question. "What do you think about the Townsend plan?"

H.M.Jr: "I'm not an expert on that."

Altmeyer: "What do you think about a sales tax?"

H.M.Jr: I'm just going to say, "Gentlemen, I've just gone as far as I'm going to here. If you want to give me a lot of questions in writing, we'll go back and give you the answers." I don't know the answers and nobody here in the Treasury does either.

Altmeyer: On the Townsend plan?

-42-

H.M.Jr: Yes.

Altmeyer: Why, I thought that

H.M.Jr: Oh, we wrote a letter killing the Townsend plan and the President wouldn't let me send it. That's right here in the room. We spent weeks and weeks and weeks and weeks on it. Of course, that was before election.

White: Why couldn't the Secretary very appropriately take that position? Here's a recommendation which has been confining his attention ...

Altmeyer: If the Secretary takes that position, my reaction would be, if I were a member of the Committee and there were newspaper boys around the table there - "Well, the Administration apparently doesn't want to face the Townsend agitation head-on," and I think it would weaken the people on the Hill who have to withstand the Townsend agitation if the Administration doesn't indicate the economic effects of anything such as proposed under the Townsend plan, and there would be a merry time and there would be no gain to the Secretary or to the plan. I should strongly urge jogging it.

H.M.Jr: Look at the time I personally spend on a thing like this. You've seen it.

Altmeyer: Yes.

H.M.Jr: Now, I feel that I'm prepared to go as far as this statement goes.

Altmeyer: But there is a unanimity - I mean we have a half dozen economists there and the essence of the Townsend plan is just as simple as A, B, C. I mean to say you're not an expert to my mind doesn't answer the question.

H.M.Jr: How would you answer it?

Altmeyer: I'd say, "The Townsend plan in effect is a multiple sales tax, and a multiple sales tax is bound to be a tax that pyramids; and in essence, gentlemen, the Townsend advocates propose to encourage spending or

-43-

purchasing power by taxing spending or purchasing power." I mean some simple statement like that. "Now, if you want to know what the estimates of the receipts will be and the incidence, I can't tell you, because that varies with the kind of product that's manufactured," and all that business. But I mean the essence of the Townsend plan is so simple and accepted by economists as being of no validity that not to make a statement about it on the grounds that a person isn't an expert, it seems to me, would indicate that the Administration didn't want to face it.

White: Supposing somebody answered

H.M.Jr: Just a second. You have to be prepared for this. Now, I'm glad you brought it up. I'm willing to go up and talk on that statement, put my name to it, say, "This is for the Administration." You're willing to have me do it; we're both working for the same fellow, and when it comes to the questions on which I'm not prepared and I don't feel I have adequate answers, I'm going to turn to you and ask you to talk for the Administration. We're both there representing the President. O.K.?

Altmeyer: O.K.

H.M.Jr: What? Whether they're financial or otherwise. Because you - this is your life, this is your work, and it isn't mine, and I'm not an expert on it and I'm not going to get into an argument on the Townsend plan.

I mean we take - here we gave out a statement on gold; I suppose it really took - a letter to Wagner - I suppose it really took a couple months to prepare a thing like that altogether - I mean until we get the thing ready; and I can't just go up and argue about ... I can say like Coolidge when they asked him - what was it he said about religion?

Altmeyer: He's for it?

H.M.Jr: He said he's for it. So I can say, "I'm agin it." "Yes, I'm against the Townsend plan, but Mr. Altmeyer will tell you why."

(Hearty laughter)

-44-

Blough: They might say, "Mr. Secretary, this Townsend plan is a tax measure. Shouldn't the Treasury be prepared to answer on a tax measure?"

H.M.Jr: Then they've got to give me time.

White: I'd keep off it absolutely, because there's an answer to that question, which will call for another answer, and it'll be a springboard for some Senators who are studying this plan; they've got a lot of fellows who want to make a good showing. Supposing they came back and said, "You're not interfering with business, because the additional tax is going to give ten billion dollars in the course of a year of additional purchasing power, which is going to increase business by ten percent," and so forth. I'm not speaking of the validity of the proposal; I mean to say that it cannot be settled by some such obiter dicta as you pronounce, and it would mean getting into a discussion which I think is better avoided unless there is a lot of preparation ahead of time.

H.M.Jr: Well, there is no preparation on my part.

White: I think better avoid it. And since Mr. Altmeyer is certainly properly qualified, I should think you'd very appropriately say that there is something he'd be glad to talk on.

Altmeyer: Of course, there are two sides to the Townsend plan, you see, and we've tried to confine ourselves in the Social Security field to the benefits. Now, the tax end of it is the more important end from the standpoint of the average Congressman. See?

H.M.Jr: Well, look, I'll just have to use the technique I always use. When there is a question asked me which I don't feel prepared or qualified to answer, I don't answer it, and they can't make me answer it; and I'm just going to stick to my text and say, "Gentlemen, you've asked me to come up here and talk about the financial aspects of the Social Security Act. Now, I'm not prepared to talk about any other kind of legislation on pensions or benefits." I'm not prepared and I'll just stick by my guns. That's all I'll have to do. But your asking me these

-45-

questions now enables me to make up my mind how dangerous it is. I'll just have to stick to it, that's all. If they say, "Well, what plan are you for?" - "Well, I'm for the Social Security Board and their plan. Now, as to the modifications of it, as to the effects on the Treasury, this is what I believe in. Beyond that I can't go."

I know - I know it's - I'm taking lots of chances, but ...

Altmeyer: Well, you know the reason why I raise these questions.

H.M.Jr: They're helpful. They're helpful.

Altmeyer: Those fellows on the Ways and Means Committee have spent two months now; they're steeped in this thing. They've heard these economists on the Townsend plan, they've learned an awful lot.

White: That's right.

Altmeyer: And I think with one or two exceptions on the Committee they could give a pretty good economic analysis of the Townsend plan, and I think it will come as somewhat of a surprise that if they are experts - that the Government doesn't come forth with something of an economic analysis along the lines that they've heard, and they'll say, "Well, that's rather strange. I wonder just what this means: that the Government doesn't take a flat position."

H.M.Jr: You mean against it.

White: I think you've given the best reason why he should stick to the position he's just taken: because they've been with it for several months and they can ask a lot of questions that can be embarrassing, even though there are good answers to them; but popped at the moment, without any preliminary study and without any kind of attention such as has been given to this, it can give you a very bad half hour, for no good purpose.

H.M.Jr: Well, I'll pray for a good day tomorrow.

-46-

Altmeyer: All right.

H.M.Jr: I'm very much obliged. And you'll be there, won't you?

Altmeyer: Yes.

H.M.Jr: All right.

Titles II and VIII of the Social Security Act of 1935 charged the Treasury with responsibility for collecting the taxes for old age insurance, for administering the old age reserve account, and for making the benefit disbursements certified to it by the Social Security Board. I should like to submit to you today some considerations bearing on these aspects of the old age insurance program.

In 1935 when the Act was under consideration, I urged adoption of a self-supporting contributory old age insurance system in which the future tax burdens on the beneficiaries would be lightened by interest earned on a reserve fund accumulated by an excess of taxes over benefits during the early years of the system. I believe now as I believed then that a sound old age insurance system must be on a contributory basis. Our experience in these four years leads me, however, to recommend to you an important alteration in the role which a reserve fund should play in this contributory insurance system.

Four years ago when the old age insurance program was being planned, we expected that the Act

- 2 -

as passed would provide old age security for a fairly limited group in the community. We realized, of course, that many workers who might not be insured under the Act at any one time would later obtain protection by shifting into insured occupations. It was generally supposed, however, that the group so shifting would be small compared with the great mass of workers, who throughout their working life would remain continuously either in the insured category or in the uninsured category.

Because the limited group of employments for which insurance was provided had been selected primarily upon the basis of administrative feasibility, it did not seem fair that uninsured persons should be taxed in order to provide old age benefits as-of-right for the insured group. I therefore recommended to your Committee in 1935 that the old age insurance system be made self-supporting from payroll taxes in insured employments.

Operation of the Act has provided significant information bearing on this issue. This information shows that the extent of migration, temporary or permanent, from uninsured to insured

employments is far greater than was anticipated by the President's Committee on Economic Security in 1935. In my last annual report, I pointed out that the consequence of this migration was that the scheduled tax rates were insufficient to maintain the system on the actuarial reserve basis provided by the law.

There is, however, another and more cheerful ^{result} ~~corollary~~ of this migration. As a consequence of the migration, a much larger proportion of the total population of the United States is qualifying under the contributory system to receive old age benefits than had been expected. My latest annual report presented the estimate that, without extension of the coverage under the present law, 80 per cent 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 the expected interest earnings from the large reserve contemplated by the present law. Therefore, it becomes apparent that the argument for a large reserve does not have the validity which four 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 payroll 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.

There is another reason for questioning the schedule of tax rates and the resultant reserve set up in 1935. We adopted a gradual step-up in the tax rate in 1935 in order to give industry an opportunity to accustom itself to the new taxes and so avoid any undue restrictive effects. The trend of business conditions in specific future years could not, of course, then be accurately foreseen. In periods of incomplete business recovery like the present, the contributory old age insurance system

should be so financed as to have the least possible deterring effect on business. It is, therefore, a pertinent question whether a substantial increase in the tax rate should be allowed to occur at the present stage of business recovery.

The depressing effect on the American economy of the present disturbed state of world affairs makes it especially urgent that at this time we do not place any avoidable burdens on American productive enterprise.

But, gentlemen, that is only one side of the picture. Over against these factors affecting business, your Committee will, of course, take into account the possible undesirable effects on the public understanding of contributory old age insurance which may result if the tax rates are not increased at this time, especially if increased benefits are approved.

With these factors in mind, I recommend the following changes in the Act:

1. We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or increases in the

volume of benefit payments. Specifically, I would suggest to Congress that it plan the financing of the old age insurance system with a view to maintaining for use in contingencies an eventual reserve amounting to not more than three times the highest prospective annual benefits in the ensuing five years.

2. The method of administering the old age insurance reserve fund should be changed so that it will be made clearer to everyone that it is a trust fund established for the benefit of the insured who have contributed to it. I recommend ~~that~~ the creation of a board of trustees for the fund to be composed of the Chairman of the Social Security Board, the Secretary of Labor, and the Secretary of the Treasury. The Secretary of the Treasury should be the managing trustee for the fund. This system of trusteeship is similar to that used in the Postal Savings System under which the Government for many years has been acting as custodian of private savings.

- 7 -

I also recommend the establishment of an "old age insurance trust fund" to be held in trust by a board of trustees of the fund and to be deposited in a special deposit account with the Treasurer of the United States. The old age insurance trust fund would be made up of (a) contributions collected under Title VIII of the Social Security Act, (b) income accruing to the trust fund, and (c) any other money appropriated thereto by Congress, including the balance now carried in the old age reserve account.

The board of trustees should report annually to Congress on the operation and status of the old age insurance trust fund during the preceding fiscal year and on its expected operation and status during the next five fiscal years, reporting and estimating the income of the fund, its disbursements, and its assets. The board of trustees should report from time to time to Congress on the actuarial position of the fund. It should also make a special report to Congress whenever the trustees believe that during the

ensuing five years the trust fund will exceed three times the highest annual expenditures anticipated during that five-year period. The trustees should also report to Congress when they believe the reserve is falling unduly low.

3. To improve public understanding of the purposes for which the funds are collected, I recommend that the taxes under Title VIII be termed "contributions" levied under the Government's taxing power. This terminology has already been used in the Railroad Unemployment Insurance Act.

The change to a contingent reserve system of old age insurance must necessarily influence the rates at which the Government should collect contributions. I must advise Congress that acceptance of a contingency reserve basis means that at some future date either payroll taxes will have to be higher than the present Act provides or there will be a deficiency which the Government will have to make up from other tax sources.

On the other hand, if a contingent reserve system is adopted and if the schedule of tax rates

provided in the Social Security Act remains unchanged, we may have for a few years, unless benefits are increased substantially, a reserve fund somewhat larger than would be necessary under the standard I have here suggested. However, the early annual disbursements of benefits are neither representative nor can their amount be accurately forecast at this time. Consequently, it may be desirable to anticipate a somewhat larger contingency reserve during the first few years of benefit payments. In addition, the contributory old age insurance principle would be jeopardized if, for the purpose of reducing the reserve, the rate of contributions was reduced or inadequately increased during the period when the public had not yet come to understand completely the essential dependence between contributions and benefits.

I submit for your consideration four alternative rate schedules for old age insurance contributions. They differ only as to the rates which would apply during the next three years. The rate schedule which will be most in harmony with the maintenance of a contingent reserve on the standard previously proposed will depend on the benefit provisions finally adopted by Congress. These alternatives are as follows:

1. Leave the present rate schedule unchanged, that is, 1 per cent on employees and employers each ^{from} 1937 to 1939, inclusive, increasing to $1\frac{1}{2}$ per cent on each in 1940, to 2 per cent in 1943, to $2\frac{1}{2}$ per cent in 1946, and to 3 per cent in 1949.

2. Increase the ~~tax~~ rates on each, employees and employers, from 1 per cent to $1\frac{1}{2}$ per cent in 1940, to $1\frac{1}{2}$ per cent in 1941, to $1\frac{3}{4}$ per cent in 1942 and follow the present schedule thereafter.

3. Increase the ~~tax~~ rates from 1 per cent to $1\frac{1}{6}$ per cent in 1940, to $1\frac{1}{3}$ per cent in 1941, $1\frac{1}{2}$ per cent in 1942 and follow the present schedule thereafter.

4. Omit the increase in ~~tax~~ rates from 1 to $1\frac{1}{2}$ per cent scheduled to take place in 1940, but step up the rates in 1943 and follow the present schedule thereafter.

You will observe that all of these plans provide for the existing schedule in 1943 and thereafter.

I should like also to place before you four tables which show annual contribution collections, annual benefit payments and the size of the old age

- 11 -

reserve fund over the next few years under each of the four contribution schedules. In preparing these tables the Treasury has used for illustrative purposes the intermediate estimates of benefit payments based upon the proposals outlined by the Social Security Board in its report to Congress. These estimates were supplied to the Treasury by the Board and their inclusion of these estimates in the Treasury's tables does not imply either approval or disapproval of the benefit plans which underlie the estimates. This material, I hope, will assist you in determining how rapidly contributions should be collected and how large the contingency fund should be.

Our experience under the Social Security Act has been very brief. We have been collecting taxes under the old age provisions of the Act for only slightly more than two years. We have not as yet had any experience with the payment of monthly benefits. Periodic re-examination of the Act, therefore, is essential. I suggest that prior to 1943 Congress again comprehensively re-examine the financial provisions of the Act. Pending that re-examination, however, I believe that the tax rates

- 12 -

for 1943 and thereafter which are now in the Act should be retained so that there shall continue to be a definite program for financing old age insurance on the statute books.

I firmly believe the old age insurance program of the Social Security Act constitutes a great and far-reaching constructive program. Its planning, initiation and operation have been a tremendous task. That task has been successfully carried forward over the past four years. With proper revision, the Act will provide a means of protecting millions of our people against dependent old age. It will protect them through enhancing their capacity to help themselves and in planning for a self-reliant old age. It will protect them and our society from the dangers of paternalism.

274

SOCIAL SECURITY BOARD
INTEROFFICE COMMUNICATION

TO: Mr. A. J. Altmeyer,
Chairman

DATE March 23, 1939

FROM: Jack B. Tate,
General Counsel

SUBJECT: Proposed changes concerning Old Age Reserve Account

Pursuant to your request, Mr. Calhoun, Mr. Bingham, Mr. Staviskey, and I met with Mr. Tietjens and Mr. Feidler last night in order to prepare the statement of changes concerning the Old Age Reserve Account, which you proposed.

We were in agreement that a statement, such as the following, would be appropriate:

(1) The taxes under Title VIII shall be designated as "contributions."

(2) It is further suggested that there be created and established a fund to be known as the "Social Insurance Trust Fund," to be held in trust by the Board of Trustees of the Social Insurance Trust Fund and to be deposited in a special deposit account with the Treasurer of the United States. The monies in the Social Insurance Trust Fund shall not be covered into the Treasury of the United States.

The Social Insurance Trust Fund shall be made up (1) of monies appropriated thereto out of the Treasury by Congress (including the monies now carried in the Old Age Reserve Account); (2) monies collected by way of "contributions" under Title VIII of the Social Security Act. It is contemplated that the "contributions" will be paid directly into the trust fund and will not be covered into the Treasury and then appropriated out. (3) All interest, increment, or profit realized in operating the trust fund shall accrue to the fund.

The Secretary of the Treasury shall be the managing trustee of the Board of Trustees of the Social Insurance Trust Fund. The Social Insurance Trust Fund shall be deposited in the special deposit account and withdrawn therefrom by the Secretary of the Treasury and as managing trustee the Secretary of the Treasury shall exercise all fiscal control over the Social Insurance Trust Fund. In that capacity shall have exclusive authority to invest or reinvest the monies in the fund. It shall be the duty of the Secretary of the Treasury to invest such portion of the monies in the fund as are not, in his judgment, required to meet current needs. The Secretary of the Treasury shall invest only in interest bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

For purposes of investment, such obligations may be acquired by the Secretary (1) on original issue at par, or (2) by purchase of outstanding obligations at the market price. The interest yield on obligations in which the Secretary may invest shall be not less than the average rate of interest provided for in section 904(b) of the Social Security Act.

(3) The board of trustees shall be composed of the Secretary of the Treasury, Chairman of the Social Security Board, and the Secretary of Labor, whose duties shall be to report annually to Congress as to the operations and status of the Social Insurance Trust Fund during the preceding fiscal year and during the next five fiscal years.

With regard to (a) income from whatever source, including contributions and interest; (b) disbursements of every character pursuant to payments under Title II of the Social Security Act; (c) the assets of the trust fund, including cash and securities and their yield.

The board shall also, from time to time, include special actuarial estimates having a bearing on the general fiscal condition of the fund.

The board of trustees shall make a special report to Congress, whenever it shall appear to the board of trustees that during the ensuing five years there will be a balance in the Social Insurance Trust Fund greater than three times the highest annual expenditure anticipated during such period.



March 24, 1939

FOR THE SECRETARY'S FILES:

Digest of discussions at
meetings on the drafting
of the Secretary's Social
Security statement of
March 24, 1939.

A group of more than twenty officials from the Treasury Department, the Social Security Board, and the Labor Department met at 3:30 March 22nd at the Treasury. Included in those attending the meeting were Mr. Blough, Mr. Ecker, Mr. Reagh, Mr. Haas, Mr. Tietjens, Mr. Feidler, Mr. Murphy, Mr. McReynolds, Mr. Gaston, Mr. Daniel Bell, and Mr. Duffield of the Treasury Department; Mr. Marshall Dimock, Second Assistant Secretary of the Department of Labor; and Mr. Wilbur Cohen, Mr. St. John, and Mr. Calhoun of the Social Security Board.

A preliminary draft of a statement by the Secretary was present to the group by Mr. Blough in behalf of himself and Mr. Duffield. The Social Security Board representatives and the actuaries asserted that the statement which approached the problem through the size of the reserve fund could not logically do so without first discussing the question of benefit payments. Mr. Blough and Mr. Duffield and other Treasury representatives asserted ~~that~~ the Secretary's belief that benefit payments were not an appropriate matter for Treasury

- 2 -

recommendation. The discussion of the necessity of mentioning benefit payments led Mr. McReynolds to the conclusion that the Secretary should not be the first witness for the Government since he could not discuss the benefit side of the program. Accordingly, Mr. McReynolds talked with Mr. Altmeyer on the telephone urging that the Social Security Board should open the Government's testimony. Mr. Altmeyer objected to this procedure. Mr. McReynolds also telephoned Secretary Morgenthau to urge this point of view and the Secretary reasserted his desire to testify before leaving for a vacation. Mr. Duffield suggested that the statement could be worked out without touching the benefit side of the question and offered to redraft the preliminary statement with the help of technical experts and re-submit it to the group at 7:30 that evening. At 7:30 on March 22nd Mr. Cohen, Mr. St. John of the Social Security Board, Mr. Haas, Mr. Murphy, Mr. Blough, Mr. Tietjens, and Mr. Duffield of the Treasury again met to discuss a revision of this statement prepared in the interim by Mr. Blough, Mr. Tietjens, Mr. Ecker, and Mr. Duffield. Mr. Haas and Mr. Murphy objected to the justification given for the Treasury's change of position since 1935 on the question of a full reserve for old age insurance. This justification as then written stated that a large reserve was not feasible because of

- 3 -

the temptation to raid it and spend it for purposes which would not benefit the persons contributing to the fund. Mr. Haas and Mr. Murphy suggested that the Treasury would be accused of having raided the fund in the past and argued that a stronger statement could be made on the behalf of the facts presented in the Secretary's Annual Report on migration of workers from uninsured to insured occupations. Mr. Duffield said he understood that the point about raiding the fund was one which the Secretary wanted in his statement in accordance with the directions he had given at a meeting in his office at noon on March 22nd. While the rest of the group went over other portions of the statement Mr. Murphy drafted his suggested substitute for justifying the shift of a full contingency reserve. Mr. McReynolds and Mr. Gaston joined the group at 9:30 when discussion was resumed on the question of justifying the contingency reserve. They both argued strenuously against the justification on grounds that the fund would be raided, supporting Mr. Haas' arguments. Mr. Duffield again asserted his belief that the Secretary wanted to use this argument. At the conclusion of the meeting it was agreed that Mr. Blough, Mr. Murphy, and Mr. Duffield would revise the statement and embody the material submitted in rough draft by Mr. Murphy

- 4 -

as well as minor revisions brought out by the second reading of the statement. The resulting version of the statement was presented to the Secretary at 9:15 on March 23rd. At 11:00 March 23rd Dr. Viner, Dr. Douglas Brown, Mr. Haas, Mr. Blough, Mr. Duffield, and, later, Mr. Tietjens and Mr. Reagh met to revise the statement again in accordance with suggestions which developed during the Secretary's first reading of the proposal. The changes were primarily in language except that Dr. Viner dictated a brief new paragraph emphasizing the disturbed state of world affairs and its depressing effect on American business, and Dr. Brown a new paragraph praising the Social Security program and its development to date. Both Dr. Viner and Dr. Brown asserted the belief that the Secretary of the Treasury should continually stress the necessity of keeping the program solvent and should suggest methods for doing so. This version, virtually the final one, was submitted to the Secretary at 2:30 March 23rd.

ESD

Statement by Secretary Morgenthau Before the
Ways and Means Committee of the House of
Representatives, Friday, March 24, 1939,

Titles II and VIII of the Social Security Act of 1935 charged the Treasury with responsibility for collecting the taxes for old age insurance, for administering the old age reserve account, and for making the benefit disbursements certified to it by the Social Security Board. I should like to submit to you today some considerations bearing on these aspects of the old age insurance program.

In 1935 when the Act was before this Committee, I urged adoption of a self-supporting contributory old age insurance system in which the future tax burdens on the beneficiaries would be lightened by interest earned on a reserve fund accumulated by an excess of taxes over benefits during the early years of the system. I believe now as I believed then that a sound old age insurance system must be on a contributory basis. Our experience in these four years leads me, however, to recommend to you an important alteration in the role which a reserve fund should play in this contributory insurance system.

Four years ago when the old age insurance program was being planned, we expected that the Act as passed would provide old age security for a fairly limited group in the community. We realized, of course, that many workers who might not be insured under the Act at any one time would later obtain protection by shifting into insured occupations. It was generally supposed, however, that the group so shifting would be small compared with the great mass of workers, who throughout their working life would remain continuously either in the insured category or in the uninsured category.

Because the limited group of employments for which insurance was provided had been selected primarily upon the basis of administrative feasibility, it did not seem fair that uninsured persons should be taxed in order to provide old age benefits as-of-right for the insured group. I therefore recommended to your Committee in 1935 that the old age insurance system be made self-supporting from payroll taxes on insured employees and their employers.

Operation of the Act has provided significant information bearing on this question. This information shows that the extent of migration, temporary or permanent, from uninsured to insured employment is far greater than was assumed by the President's Committee on Economic Security in 1935. In my last annual report, I pointed out that the consequence of this migration was that the scheduled tax rates were insufficient to maintain the system on the actuarial reserve basis provided by the law.

There is, however, another and more cheerful result of this migration. As a consequence of the migration, a much larger proportion of the total population of the United States is qualifying under the contributory system to receive old age benefits than had been expected. My latest annual report presented the estimate that, without extension of the coverage under the present law, 80 per cent 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 the present law. Therefore, it becomes apparent that the argument for a large reserve does not have the validity which four 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 payroll 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.

There is another reason for questioning the schedule of tax rates and the resultant reserve set-up in 1935. We adopted a gradual step-up in the tax rate in 1935 in order to give industry an opportunity to accustom itself to the new taxes and so avoid any undue restrictive effects. The trend of business conditions in specific future years could not, of course, then be accurately foreseen. In periods of incomplete business recovery like the present, the contributory old age insurance system should be so financed as to have the least possible deterring effect on business. It is, therefore, a pertinent question whether a substantial increase in the tax rate should be allowed to occur at the present stage of business recovery.

The depressing effect of the present disturbed state of world affairs upon the American economy makes it especially urgent that at this time we do not place any avoidable burdens on American productive enterprise.

That is only one side of the picture. Over against these factors affecting business, your Committee will, of course, take into account the possible undesirable effects on the public understanding of contributory old age insurance which may result if the tax schedule is disturbed at this time, especially if increased benefits are approved.

With these factors in mind, I recommend the following changes in the Act:

1. We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or increases in the volume of benefit payments. Specifically, I would suggest to Congress that it plan the financing of the old age insurance system with a view to maintaining for use in contingencies an eventual reserve amounting to not more than three times the highest prospective annual benefits in the ensuing five years.

2. The method of administering the old age insurance reserve fund should be changed so that it will be made clearer to everyone that it is a trust fund established for the benefit of the insured who have contributed to it. I recommend the creation of a board of trustees for the fund to be composed of the Chairman of the Social Security Board, the Secretary of Labor, and the Secretary of the Treasury. The Secretary of the Treasury should be the managing trustee for the fund. Such a board of trustees would be similar to that set up in the Postal Savings Act.

I also recommend the establishment of an "old age insurance trust fund" to be held in trust by a board of trustees and to be deposited in a special account in the Treasury. The old age insurance trust fund would be made up of (a) contributions collected under Title VIII of the Social Security Act, (b) income accruing to the trust fund, and (c) any other money appropriated thereto by Congress, including the balance now carried in the old age reserve account.

- 5 -

The board of trustees should report annually to Congress on the operation and status of the old age insurance trust fund during the preceding fiscal year and on its expected operation and status during the next five fiscal years, reporting and estimating the income of the fund, its disbursements, and its assets. The board of trustees should report from time to time to Congress on the actuarial position of the fund. It should also make a special report to Congress whenever the trustees believe that during the ensuing five years the trust fund will exceed three times the highest annual expenditures anticipated during that five-year period. The trustees should also report to Congress when they believe the reserve is falling unduly low.

3. To improve public understanding of the purposes for which the funds are collected, I recommend that the taxes under Title VIII be termed "contributions" levied under the Government's taxing power. This terminology has already been used in the Railroad Unemployment Insurance Act.

The change to a contingency reserve system of old age insurance must necessarily influence the rates at which the Government should collect contributions. I must advise Congress that acceptance of a contingency reserve basis means that at some future date either payroll taxes will have to be higher than the present Act provides or there will be a deficiency which the Government will have to make up from other tax sources.

On the other hand, if a contingency reserve system is adopted and if the schedule of tax rates provided in the Social Security Act remains unchanged, we may have for a few years, unless benefits are increased

substantially, a reserve fund somewhat larger than would be necessary under the standard I have here suggested. However, the early annual disbursements of benefits are neither representative nor can their amount be precisely forecast at this time. Consequently, it may be desirable to anticipate a somewhat larger contingency reserve during the first few years of benefit payments. In addition, the contributory old age insurance principle would be jeopardized if, for the purpose of reducing the reserve, the rate of contributions was reduced or inadequately increased during the period when the public had not yet come to understand completely the essential dependence of benefits on contributions.

I submit for your consideration four alternative rate schedules for old age insurance contributions. They differ only as to the rates which would apply during the next three years. The rate schedule which will be most in harmony with the maintenance of a contingency reserve on the standard previously proposed will depend upon the benefit provisions finally adopted by Congress. These alternatives are as follows:

1. Leave the present rate schedule unchanged, that is, 1 per cent on employees and employers each from 1937 to 1939, inclusive, increasing to $1\frac{1}{2}$ per cent on each in 1940, to 2 per cent in 1943, to $2\frac{1}{2}$ per cent in 1946, and to 3 per cent in 1949.
2. Increase the tax rate on each, employees and employers, from 1 per cent to $1\frac{1}{4}$ per cent in 1940, to $1\frac{1}{2}$ per cent in 1941, to $1\frac{3}{4}$ per cent in 1942 and follow the present schedule thereafter.
3. Increase the tax rate from 1 per cent to $1\frac{1}{6}$ per cent in 1940, to $1\frac{1}{3}$ per cent in 1941, $1\frac{1}{2}$ per cent in 1942 and follow

- 7 -

the present schedule thereafter.

4. Omit the increase in tax rate from 1 to $1\frac{1}{2}$ per cent scheduled to take place in 1940, but step up the rates in 1943 and follow the present schedule thereafter.

You will observe that all of these plans provide for the existing schedule in 1943 and thereafter.

I should like also to place before you four tables which show annual contribution collections, annual benefit payments and the size of the old age reserve fund over the next few years under each of the four tax schedules. In preparing these tables the Treasury has used for illustrative purposes the intermediate estimates of benefit payments based upon the proposals outlined by the Social Security Board in its report to Congress. These estimates were supplied to the Treasury by the Board and their inclusion in the Treasury's tables does not imply either approval or disapproval of the benefit plans which underlie the estimates. This material, I hope, will assist you in determining at what rates contributions should be collected and how large the contingency fund should be.

Our experience under the Social Security Act has been very brief. We have been collecting taxes under the old age provisions of the Act for only slightly more than two years. We have not as yet had any experience with the payment of monthly benefits. Periodic re-examination of the Act, therefore, is essential. I think that it is most important that prior to 1943 Congress again comprehensively re-examine the financial provisions of the Act. Pending that re-examination, however, I believe that the tax rates for 1943 and thereafter which are now in the Act should be retained

- 8 -

so that there shall continue to be a definite program for financing old age insurance on the statute books.

I firmly believe the old age insurance program of the Social Security Act constitutes a great and far-reaching constructive program. Its planning, initiation and operation have been a tremendous task. That task has been successfully carried forward over the past four years. With proper revision, the Act will provide a means of protecting millions of our people against dependent old age. It will protect them through enhancing their capacity to help themselves and in planning for a self-reliant old age. It will protect them and our society from the dangers of paternalism.

ALTERNATIVE PLAN I

1. Tax schedule of present law: 1 percent on employee and 1 percent on employer through 1939, increasing to $1\frac{1}{2}$ percent in 1940, 2 percent in 1943, $2\frac{1}{2}$ percent in 1946, and 3 percent in 1949 and thereafter.
2. The benefit estimates used are for illustrative purposes only and are the intermediate estimates based upon the proposals outlined by the Social Security Board in its Report to Congress.

(In millions of dollars)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Net tax receipts (gross receipts minus administrative expenses)	\$ 707	\$ 780	\$ 781	\$1,078	\$1,751	\$1,849
Less: Benefit payments	175	400	555	914	1,697	2,320
Net cash receipts of Government	532	380	226	164	54	- 471
Add: Interest accrued	51	66	77	110	147	135
Total addition to fund	583	446	303	274	201	- 336
Fund at end of year*	2,013	2,459	2,762	3,846	5,064	4,395

* Fund at end of year 1939 is estimated to be \$1,430 millions.

ALTERNATIVE PLAN II

1. Tax schedule: $1\frac{1}{4}$ percent on employee and $1\frac{1}{4}$ percent on employer in 1940; $1\frac{1}{2}$ percent on each in 1941; $1\frac{3}{4}$ percent on each in 1942; same as present law in 1943 and thereafter.
2. The benefit estimates used are for illustrative purposes only and are the intermediate estimates based upon the proposals outlined by the Social Security Board in its Report to Congress.

(In millions of dollars)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Net tax receipts (gross receipts minus administrative expenses)	\$ 605	\$ 746	\$ 884	\$1,078	\$1,751	\$1,849
Less: Benefit payments	175	400	555	914	1,697	2,320
Net cash receipts of Government	430	346	329	164	54	- 471
Add: Interest accrued	49	62	74	109	146	134
Total addition to fund	479	408	403	273	200	- 337
Fund at end of year*	1,909	2,317	2,720	3,836	5,052	4,381

* Fund at end of year 1939 is estimated to be \$1,430 millions.

ALTERNATIVE PLAN III

1. Tax schedule: 1-1/6 percent on employee and 1-1/6 percent on employer in 1940; 1-1/3 percent on each in 1941; 1-1/2 percent on each in 1942; same as present law in 1943 and thereafter.
2. The benefit estimates used are for illustrative purposes only and are the intermediate estimates based upon the proposals outlined by the Social Security Board in its Report to Congress.

(In millions of dollars)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Net tax receipts (gross receipts minus administrative expenses) \$	570	\$ 666	\$ 758	\$1,078	\$1,751	\$1,849
Less: Benefit payments	175	400	555	914	1,697	2,320
Net cash receipts of Government	395	266	203	164	54	- 471
Add: Interest accrued	49	60	69	100	136	122
Total addition to fund	444	326	272	264	190	- 349
Fund at end of year*	1,874	2,200	2,472	3,528	4,695	3,966

* Fund at end of year 1939 is estimated to be \$1,430 millions.

ALTERNATIVE PLAN IV

1. No increase in tax through 1942; thereafter tax schedule of present law.
2. The benefit estimates used are for illustrative purposes only and are the intermediate estimates based upon the proposals outlined by the Social Security Board in its Report to Congress.

(In millions of dollars)

	Calendar Year					
	1940	1941	1942	1945	1950	1955
Net tax receipts (gross receipts minus administrative expenses) \$	501	\$ 505	\$ 504	\$1,078	\$1,751	\$1,849
Less: Benefit payments	175	400	555	914	1,697	2,320
Net cash receipts of Government	326	105	- 51	164	54	- 471
Add: Interest accrued	48	56	58	82	115	98
Total addition to fund	374	161	7	246	169	- 373
Fund at end of year *	1,804	1,965	1,972	2,907	3,974	3,131

*Fund at end of year 1939 is estimated to be \$1,430 millions.

March 24, 1939

This material was used by the Secretary when he appeared to testify on the Hill today on Social Security.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Mr. Foley, Acting General Counsel

At your suggestion, the following brief outline, comparing certain features of the Postal Savings Fund with the proposed "Social Insurance Trust Fund", has been prepared for your convenience.

Postal Savings Funds

Proposed Social Insurance Trust Fund

1. Management.

By a board of trustees composed of the Postmaster General, the Secretary of the Treasury, and the Attorney General.

2. Nature of the Fund.

A trust fund, not covered into the Treasury. Leka v. United States, (1930) 69 Ct. Cl. 79.

3. Depositories.

Reserve of 5% must be deposited in lawful money with the Treasurer of the United States. The balance is to be deposited locally "in solvent banks" willing to receive it, subject to certain requirements as to security or deposit insurance, and to certain limitations upon the amount deposited in any one bank.

1. Management.

By a board of trustees composed of the Secretary of the Treasury, as managing trustee, the Chairman of the Social Security Board, and the Secretary of Labor.

2. Nature of the Fund.

A special deposit subject at all times to the order of the Secretary of the Treasury, as fiscal agent.

3. Depositories.

The Treasurer of the United States.

- 2 -

Postal Savings Funds.**Proposed Social Insurance
Trust Fund**

4. Investment.

(The President may direct the trustees to withdraw from the banks and invest all or any part of the fund, except the 5% reserve. Excess deposits, not required for the 5% reserve, which banks are unwilling to receive, may be invested by the trustees.)

Investments are limited to bonds or other securities of the United States, including certain guaranteed bonds, bonds subject to call, and Postal Savings Bonds.

No limitation on source of purchases, except Postal Savings Bonds are to be acquired from "holders". In the case of call bonds, the Secretary of the Treasury shall call a sufficient amount and reissue them at par to the trustees, upon notification by the trustees of the amount which they desire to invest in this manner.

5. Rate of Return.

No limitation as to the amount of interest on investments.

4. Investment.

(The Secretary of the Treasury is required to invest such portion of the fund as, in his judgment, is not required to meet current needs.)

Investments must be made in interest-bearing obligations of the United States, or obligations guaranteed as to both principal and interest by the United States. Special issues authorized for investment of this fund.

Purchases may be made at par on original issue, or in the open market.

5. Rate of Return.

Interest must be not less than the average rate on all other interest-bearing obligations forming part of public debt, as of the end of the month preceding date of acquisition of the particular investment. (In order for the Secretary of the Treasury to comply with this requirement in the present state of the market, it will be necessary to invest in special issues.)

Postal Savings FundsProposed Social Insurance
Trust Fund

5. Rate of Return.
(Continued)

Deposits in banks must bear interest at ~~2 1/4~~%, except that, as to member banks of the Federal Reserve System, a lower rate may be accepted where it is fixed by the Board of Governors. (1935) 38 Op. Atty. Gen. 389.

6. Disposition of Income.

The excess income from deposits or investments over and above that necessary for interest due depositors shall be covered into the Treasury as part of the postal revenue.

7. Reports to Congress.

The trustees are required to make a detailed report of the entire system of postal savings, as well as their management of the fund, at the beginning of each regular session.

6. Disposition of Income.

All income accrues to and becomes a part of the fund.

7. Reports to Congress.

The trustees shall make annual reports showing the condition of the fund during the preceding fiscal year, and the anticipated condition during the next five fiscal years.

A special report shall be made whenever it appears that at any time during the ensuing five years the fund will be greater than three times the highest annual expenditure anticipated during that period.

E.H.F.

March 24, 1939.

Dear Dr. Brown:

I want to express my very deep appreciation for your assistance and the effort you made to make yourself available yesterday in helping to prepare me to appear before the Ways and Means Committee to discuss the revision of the Social Security Act.

With kind regards

Sincerely,

(Signed) H. Morgenthau, Jr.

Professor Douglas Brown,
Princeton University,
Princeton, New Jersey.

MR

138

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON
OFFICIAL BUSINESS



Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

Personal

please Return to Room 285

199

March 27, 1936.

My dear Mr. Hooley:

In the absence of the Secretary, who is away on a brief vacation, I am acknowledging your letter of March 26th. It will be brought to Mr. Morgenthau's attention as soon as he returns to the office, and in the meantime I am sure he would wish me to thank you for your words of commendation concerning his recent appearance before the Committee.

Sincerely yours,

✓
H. S. Klets,
Private Secretary. *YK7*

Honorable Harriman S. Hooley,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

ds

The National City Bank
of New York
ESTABLISHED 1812

New York March 27, 1939.

CABLE ADDRESS "CITIBANK"

IN REPLYING PLEASE QUOTE INITIALS

Dear Henry:

I liked your statement about the Social Security tax very much indeed. I'm glad that in suggesting the tax reduction you also emphasized the importance of preserving the psychological principle of a participating pension plan. That is a point of the utmost importance which many people miss. The reception that your suggestion has received seems to make it clear that your recommendation will be adopted, and I believe it will constitute perhaps the most important step which has been taken so far in definite encouragement to enterprise.

Sincerely yours,

Randolph

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

WRB.H

Return to Room 201

201

March 29, 1939.

Dear Dr. Burgess:

Your letter of March 27th, speaking so pleasantly of the Secretary's recent statement, reached his office after he had left Washington for a brief vacation in the South. I shall be glad to bring this to his attention just as soon as he is back at his desk, and I know that he would wish me to thank you for your praise of his recommendation.

Sincerely yours,

H. S. Klotz,
Private Secretary.

Per HES

Dr. Randolph Burgess,
The National City Bank of New York,
New York, New York.

GXF/dbs

March 27, 1939.

My dear Mr. Dimock:

On behalf of the Secretary, who is in the South on a brief vacation, I want to acknowledge and thank you for sending him a copy of the statements you made before the Ways and Means Committee today, concerning Social Security Legislation. The report will be brought to Mr. Morgenthau's attention as soon as he returns to the office, and I am sure he will be most interested in seeing your comments.

Sincerely yours,

✓
H. S. Klets,
Private Secretary. *4/3/39*

Honorable Marshall E. Dimock,
Second Assistant Secretary of Labor,
Washington, D. C.

dbu

Marshall E. Dimock
Second Assistant Secretary of Labor

Statement of
Marshall E. Dimock
Assistant Secretary of Labor

Social Security Legislation
House Ways and Means Committee
March 27, 1939

Pls ask
for H. K. K.
Sg

I.

In advancing the proposed changes which your Committee is considering, the Social Security Board has called attention to the need for improved coordination between its own Bureau of Unemployment Compensation and the United States Employment Service of the Department of Labor. Our Department has attempted to cooperate with the Social Security Board to the fullest possible extent and hence we welcome this opportunity to counsel with you on a matter of mutual experience affecting the fundamental interests of the country.

We wish to approach this question of administrative coordination first of all from the standpoint of the respective services which each of the two programs render to the workers. We should like briefly to point out what we believe to be the fundamental functions to be performed respectively by an unemployment compensation program and by a public employment service.

I wish to emphasize at the start that while both unemployment compensation and employment service activities are related to the general problem of the workers' economic security, these two programs are not the same thing; their functions are not identical and their clientele is not the same.

Unemployment compensation is essentially an insurance program. The functions to be performed in its administration are basically: (1) tax or contribution collection; (2) determination of benefit eligibility and computation and payment of claims; (3) adjudication of disputed claims and disputed coverage of the law. These are all primarily insurance or fiscal functions.

The functions of employment service are quite different and include: (1) registration and classification of all applicants for work (whether or not

- 2 -

covered by unemployment compensation); (2) selection and referral of workers to fill employers' openings; (3) conduct of a public relations program directed toward employers and designed to cultivate their cooperation and to find jobs; (4) service functions to other governmental programs. The last-mentioned category consists of taking new and continued claims for unemployment compensation benefits, selecting and referring workers to public works and work relief projects, and reporting placements or failure to accept available private employment to unemployment compensation and relief agencies.

The mere statement of these functions indicates that the whole approach of the employment service is an employment approach. It assumes that, from the standpoint of both the individual and the community, a job is the only thoroughly desirable solution to the individual's unemployed status.

Unemployment compensation is a stop-gap, tide-over to a loss of income for a limited period of time and for the groups of workers covered by the respective state unemployment compensation laws. I do not mean in the slightest measure to minimize the very desirable results of unemployment compensation (such as the maintenance of workers' morale and of sustained purchasing power in the community). Nor do I wish in any way to minimize the magnitude of the task of unemployment compensation administration. But I do wish to emphasize that the function of unemployment compensation is an insurance and not a placement function.

The chairman of the Social Security Board is entirely correct in his statement that the Social Security Board embraces "the biggest bookkeeping job in the world," unemployment compensation playing a large part. At the same time it should be remembered that the work of the public employment service represents the biggest personnel job in the country.

I indicated earlier that these two governmental programs differ in their clientele. All job seekers whether employed or unemployed, whether covered

or uncovered by unemployment compensation, and all employers represent the clients of a public employment service.

Unemployment compensation in this country at present covers only approximately 50 percent of the workers, and large areas in the field of agricultural employment, domestic service, and employment in establishments of small size are not touched by the state unemployment compensation laws. It should be noted that the burden of unemployment among these uncovered groups is no less, and in many cases is greater, than among workers covered by the respective state unemployment compensation laws. It is significant that at the present time the active files of employment offices in this country contain over seven million applications, but that less than one million of these applicants for work are currently receiving unemployment compensation benefits.

Thus, the coverage of the employment service and its scope of responsibility to the working population of the country is vastly greater than the coverage and scope of unemployment compensation.

It appears to be in keeping with this discussion to outline the broad functions of the public employment service as now constituted. They are as follows:

1. To assist employers in securing suitable employees and to help persons seeking work to secure suitable employment,
2. To assist in bringing about and maintaining a balance between the demand and supply of workers in various occupations,
3. To serve as an authoritative source of information on employment.

To achieve these ends, the United States Employment Service has set up machinery to carry out the necessary functions involved. Methods have been devised to clear labor between states, within a district, and between districts. Employment information, as reflected in analyses of registration and placement activities is made available to all states and to governmental units responsible

for planning public works programs.

Studies are going on and much work is being done in solving problems of employment, training, retraining, and vocational guidance. Improvements in selection and placement methods are being made constantly through information secured in the analysis of jobs in all types of industries. Much has been done to improve methods of judging qualifications and abilities of persons seeking work.

The United States Employment Service has definite provisions for the collection and summarization of occupational information. This information is made available to all offices so that it may be given to individuals seeking vocational guidance and occupational information helpful in their occupational adjustment.

Clearance methods have been developed to create mobility in skilled labor, and much has been done in the development of information helpful in transferring workers from one industry to another as needed. Much attention on the part of the employment service is given to such groups as juniors, who characteristically lack work experience. It has separate divisions for veterans and farm workers. In other words, the present public employment office is a community personnel organization serving the occupational adjustment needs of all types of individuals.

The United States Employment Service is one of the government's principal agencies for assembling basic data with which to attack the problem of unemployment and economic readjustment. Furthermore, it is in a department which already protects the interests of the workers, and in which the supplementary services of the Bureau of Labor Statistics, the Division of Labor Standards, and other similar agencies are available.

- 5 -

II.

I have dwelled upon these differences between the functions and coverage of the employment service and unemployment compensation because these basic considerations have an important bearing upon the administrative problems of coordinating the two services of government.

For further understanding of the complexities of the administrative problem involved in the coordination of these two services, I should like to bring briefly to the attention of the Committee the existing administrative organization and financial structure for the performance of the two functions, both in the states and in the federal government.

Without exception, in all 48 states and the 2 territories, unemployment compensation and employment service are administered within a single agency of state government. In most states these represent coordinate bureaus or divisions with equal status but under the ultimate authority of a higher overhead agency such as a state labor department. This overhead agency brings about the necessary coordination between the activities of the two separate divisions but, at the same time, permits each division to carry on effectively, and without domination by the other function, its own distinctive activities.

The public employment service, by its very nature, is essentially a local community institution, and the work of a state employment service is actually carried on in local employment offices distributed throughout the state. By contrast, much of the work in the administration of unemployment compensation is carried on in a large central headquarters office. In practically all of the states there is a centralization of employer and employee records, of tax collection and benefit payment processes. In almost all states, benefit checks are mailed from a central office. Some aspects of the administration of unemployment compensation are carried on in the field, as, for example, the auditing of

- 6 -

payroll accounts, the collection of delinquent taxes, and initial stages in the adjudication of disputed claims. But the largest segment of field activities of the unemployment compensation program relates to the filing of new and continued claims for benefit. This process is carried on in every state in the public employment offices. The worker, under the present organization, goes to but one office to apply for work and to file his claim for benefit—he "enters through the same door." In no state is he required to go to two offices for these two purposes. The state laws themselves require that as a prerequisite to filing a claim for benefit, the worker must register for employment in his local employment office.

In the federal government, as we have already pointed out to this Committee, the responsibility for administering unemployment compensation rests with the Social Security Board, and for administering Public Employment Service with the Department of Labor. The difficulty is that there does not exist in the federal government the same degree of overhead coordination in a single agency as exists uniformly among the states.

The complexity of the administration of these programs in the federal government is accentuated by the differing financial arrangements for each function. The costs of unemployment compensation administration in the states are borne entirely by federal grants from the Social Security Board. Costs of employment service administration are borne in part by state appropriation, in part by federal matching funds made available by the United States Employment Service under the Wagner-Peyser Act, and in part by a grant from the Social Security Board.

These three sources of funds which enter into the total expenditures of a state employment service are commingled in a single account and are justified in a single budget. This budget, however, must be reviewed by representatives of both the United States Employment Service and the Social Security Board. Hence

the difficulty of administration arises not so much from the fact that the state agency must deal with two separate federal agencies, but that they must deal with two federal agencies with respect to employment service. The state agencies deal solely with the Social Security Board on their budgets for unemployment compensation administration, but must deal jointly and concurrently with both federal agencies on all employment service matters.

Differences between federal laws applying to these two functions also have an important bearing upon these administrative problems. The United States Employment Service is administered under the Wagner-Peyser Act, an Act which authorities regard as one of the best formulas for federal-state administration of any which Congress has ever passed. It created in the Department of Labor a bureau vested with the responsibility for the promotion, establishment, and maintenance of a national system of public employment offices. The service developed under this Act has achieved nation-wide recognition for its successful placement activity in all types of employment, private and public. The extent of approval which both employers and employees have accorded it makes it one of the outstanding accomplishments of social legislation in recent years. The employment offices administered by the United States Employment Service have achieved a record of success in their own right and have, in addition, performed valuable services to newly-created governmental agencies such as the Public Works Administration, as well as to old-established units of the government such as the Bureau of Public Roads. One of the largest users of its services are the members of the Associated General Contractors of America. It is not too much to say that the United States Employment Service has represented the center of government's work approach to the unemployment problem.

III.

The Department of Labor believes it to be of vital importance further to develop the placement activity which was begun in the United States Employment Service as early as 1918 and greatly expanded in 1933. We recognize clearly the problem of working out an effective coordination between the employment service and unemployment compensation. The problem is to accomplish this objective without injury to either function. We believe that this coordination should be brought about in such a way as to leave the employment service free and able to act as a placement agency; to give its central emphasis to its central job; but we also want to make it clear that provision must be made through the employment offices for an adequate service to the administration of unemployment compensation, that is, for proper procedure for taking new and continued claims for benefits. By a proper recognition of the nature of these functions and a careful balance of the factors involved, these two objectives can be attained.

We believe that a major step toward the solution of the problems we are discussing would be accomplished through direct, adequate financing of the employment service. This would mean that the total federal appropriation for administering state employment services would be made to the United States Employment Service in the Department of Labor.

The total cost to the federal government of such an arrangement would be no more and might conceivably be less than at present. The state agency would be dealing with a single agency of the federal government in regard to all employment service matters and would receive all of the federal funds for this function from one source. By the same token, the unemployment compensation function should be adequately financed.

- 9 -

We are convinced that in all respects where joint action is needed between these programs, the necessary results can be secured by the coordination of bureaus within a single department and under a common head directly delegated to blend their activities.

If the Congress decides that closer coordination is desirable, it will of course determine the department in which it should take place. The Department of Labor would merely draw attention to the similarity between the purposes and objectives of these two related functions and the general statutory purpose of the Department of Labor which is, "To foster, promote and develop the welfare of wage earners of the United States, and to improve their working conditions and to advance their opportunities for profitable employment."

I wish to emphasize the concluding words in Congress' mandate to the Department of Labor. It is our job to promote opportunities for "profitable employment." What then could be more central in the Department of Labor than the United States Employment Service?

(6282)

C O P Y

213

CHAMBER OF COMMERCE
of the
UNITED STATES OF AMERICA

Washington

March 29, 1939

Honorable John W. Hanes,
Under Secretary of the Treasury,
Washington, D. C.

Dear Mr. Hanes:

Enclosed are two copies of the report of the Chamber's Special Committee on the Social Security Act. In view of our recent discussions, we thought the Secretary might like to have a copy and you might desire one for your files.

This report is subject to some slight revisions prior to printing.

We will be able to supply copies of the printed report in a matter of days if you should desire them.

Yours sincerely,

/s/ John J. O'Connor

Manager
Finance Department

335/837
Enclosures

Report of the Special Committee on
The Social Security Act

To the Board of Directors of the
Chamber of Commerce of the United States:

Legislation of so wide a sweep as the Social Security Act, and in fields where earlier experience under our conditions is lacking, should have periodic review. There will then be opportunity to make proposals designed to keep the legislation in accordance with conditions as they develop. Periodical reviews can also keep clear the benefits, costs and liabilities that may be inherited by future generations.

There now appears general recognition that the time has arrived for the first of these periodic reviews. Since the beginning of January there have been placed before Congress, or one of its Houses, the following:

Recommendations of the Social Security Board for changes in
the law;

Proposals of the Advisory Council for changes in the federal
plan for old-age annuities made after a year of study
with the aid of the Board's facilities;

Recommendations placed before the Senate by its special
Committee on Unemployment and Relief;

Proposals of an inter-departmental committee for further
development of measures to protect health.

The recommendations in these reports are outlined in an
appendix.

Having the benefit of these reports now before Congress, this Committee
has made its own examination, and submits this report.

Old-Age Insurance

The financial provisions of the federal old-age insurance plans are of outstanding importance, because of the great sums involved, and the consequences of the methods used in raising such large amounts of money. Of the reports before Congress, only the Advisory Council's report deals with this subject. With the recommendation of the Advisory Council that these financial provisions should be changed we concur. This recommendation is that the government should meet each year its obligations under the plan as they mature and should not pile up the huge reserve fund contemplated under the present law. Two years ago the Chamber's annual meeting attached great importance to such a change. It very properly urged that there should be no dependence upon reserves calculated according to the actuarial principles necessarily used by private insurance companies, for the reason that such a procedure is wholly inconsistent with a government-operated, compulsory system of benefits, supported by taxation.

There are also substantial arguments of a practical kind against the government attempting to use the reserve plan. For example, such a plan requires levy of heavy taxes upon payrolls years in advance of the proceeds being needed. Of course, this is a highly deflationary process in a period of business depression. On the other hand, the collection by the federal government of large amounts of money well in advance of the time for expenditure for the purposes for which they were avowedly collected would inevitably lead to heavy diversion of these funds to immediate purposes of an altogether different sort.

Government Contribution

Abandonment of the provisions for creation of a great reserve will also afford opportunity to change the government's contribution from an indirect to a direct form. The government's contribution is now made through interest charges connected with the large reserve fund. The public interest

- 3 -

in old-age insurance will warrant eventually, instead of this interest provision, a direct contribution from the government to be added to the contributions through taxes upon employers and employees. As part of a change to a pay-as-you-go system there should be contemplation of such a direct contribution from the government, the exact time of the direct contribution to be the subject of future study.

There now arises also a practical question in a practical situation. The present law provides that on January 1, 1940, the rates of payroll tax, now 1% for employers and 1% for employees, will increase to $1\frac{1}{2}\%$ and $1\frac{1}{2}\%$. Such an increase will mean tax collections will rise from about \$600,000,000 a year to \$900,000,000. Besides, there is already a reserve accumulated which on December 31, 1938, amounted to \$1,131,000,000. The extent of the funds available next year, if there is a change to a pay-as-you-go basis, is obviously large. The amount will appear large, too, in relation to such supplemental and increased benefits as are advocated in this report. The exact requirements, however, will depend upon computations as to the sums needed, and such computations are not yet at our disposal. Consequently, we believe that a decision whether or not under the pay-as-you-go system there will be a need of advance in the tax rates from 1 per cent to $1\frac{1}{2}$ per cent on January 1, 1940, should be postponed until data necessary for a conclusion can be reached.

Rates of Tax

The rates of tax should be related to the principle of "pay-as-you-go." The rates should not currently bring in substantially more than current costs of the plan with enough to maintain a contingent reserve sufficient only to permit continuation of maturing benefit payments during periods of temporary depression and continuation of stable tax rates.

Contributors' Rights

The existing program contemplates the payment of benefits to persons as a right that belongs to them because of the contributions they have made, and the contributions their employers have made. The system thus is founded on the principle which underlies successful plans employed by private business itself to provide retirement pensions. There should always be vigilance to safeguard this basic feature.

Preservation of a system based upon rights to benefits for which there has been payment will, on the one hand, gradually reduce the extent of old-age assistance in the form of pensions for which payment has not been made and, on the other hand, will avoid new departures in the direction of old-age benefits of such a kind.

Early Benefits

In order that the old-age insurance plan may be strengthened, its benefits should become available at an earlier time than 1942 and the benefits for those who reach retirement age in the earlier years after payments begin should be made more substantial. In this way there will be a more favorable comparison with the larger payments in the nature of free pensions which will be available under old-age assistance laws of the states, with federal aid, for persons who have acquired no rights by reason of advance contributions. As the law now stands, many persons who become eligible for monthly payments in the early years after payments begin will receive as little as \$10 a month under the old-age insurance plan, with nothing additional because there is an aged spouse, whereas a neighboring husband and wife, in the same general economic circumstances and of the same age, may through a state plan for old-age assistance be receiving \$30 a month or more. The resulting inequalities would seem to be obvious.

Postponement of benefits to 1942, in the present law, has been connected with the accumulation of an insurance actuarial reserve. Change to the

- 5 -

pay-as-you-go plan, as we recommend, will make ample funds available for monthly benefit payments beginning on January 1, 1940. There will be sufficient funds also for increasing the benefits.

Part of the increase in benefits can take forms that will tend to promote the security which the law contemplates. One of these forms can be payment to a married man, with suitable provision against abuse, of a supplementary allowance on behalf of his aged wife, equivalent in amount to half the husband's own benefit. Of course, if an aged wife in her own right, upon reaching 65 years of age, is herself entitled to a larger benefit, she should be allowed to receive this larger payment in lieu of the supplementary allowance.

Another form of increase should be a provision, under proper safeguards, giving to the widow of an insured worker, after she has reached age 65, an annuity reasonably related to the annuity her husband would have received. This will add greatly to the sense of security of the aged women of the country, who are well aware of the probability that a wife will outlive her husband.

A third form of increase would likewise have as its purpose promotion of family security, and would make provision against the chance that an insured worker may die before reaching age 65, leaving dependent children or a widow with dependent children. For the former there should be provided during the years of usual dependency an orphan's benefit, and for such a widow having in her care one or more dependent children of her deceased husband there should be a corresponding widow's benefit payable during the period of dependency of the children.

Ultimate Cost

With increases in benefits in early years should go compensating adjustments elsewhere in the provisions for the federal plan, in order that the ultimate cost of the system may not be increased. Original estimates made it clear the ultimate costs of the present system will be heavy. The greatest care

should be maintained to see that the ultimate cost of the system will never be raised above the ^{costs} / of the present law.

There are two points at which compensatory adjustments may properly be made. The benefits of single persons who attain age 65 after the plan has reached full-scale operation, or after the plan has been operative for at least 20 years, might be reduced without impairment of the purpose of the plan. There might also be a more appropriate provision as to payments in the event of the death of a covered worker before reaching age 65, with the amount restricted to a relatively small maximum benefit for burial purposes rather than rising to the much larger sum that might be reached under the present law. It is not a purpose of old-age insurance to create estates to leave lump sums to others.

Other Extensions

Other benefits for persons included within the present old-age insurance plan and extension of the plan to large classes of workers not now included have been proposed in one quarter or another. For example, there has been some advocacy of providing benefits for persons who are included within the old-age insurance plan but who before reaching age 65 become totally and permanently disabled, and there are proposals for extending old-age insurance to domestic servants and to agricultural laborers.

None of these extensions, in our opinion, should be made at present. Respecting all of them there should be development of many more facts than are now available before there is an endeavor to reach a decision.

In regard to total and permanent disability, insurance companies have experience which should be analyzed and taken into account. When they placed in their policies provisions for payments to the insured person upon his becoming totally and permanently disabled, they encountered administrative problems

- 7 -

of the first magnitude and suffered such heavy losses that many of the insurance companies have ceased placing in their policies provisions of this sort.

Extension of the plan to additional classes of workers should await evidence of accomplishment in two directions. In the first place, there should be demonstration that the administrative problems incident to the coverage now given by the law have been solved. That demonstration cannot be given until monthly payments begin, in 1942 under existing law or in 1940 if the law is altered. Under the present law for old-age insurance, more than 42,600,000 accounts have been set up by the Social Security Board, with an average of 17,000 being added each working day. Every three months there has to be posting of wage data to an average of 28,000,000 of these accounts, from reports sent in by an average of 1,800,000 employers. Over 5,000 employees of the Board are now engaged with the administrative functions, and there are to be more. Such figures suggest the size of the administrative task which has already been undertaken. How well it has been met will not be known until it is put to the test for which it has been intended, - providing for monthly payments promptly and accurately for workers who retire at 65.

Extension of the coverage to classes of workers beyond those now covered will raise administrative problems of more difficulty than has yet been encountered. The classes now covered present the fewest and simplest administrative problems. Domestic servants and agricultural workers will give rise to the most numerous and the most baffling problems. Certainly, the Social Security Board should study these problems. Only when it can present solutions that are realistic should there be consideration of extension of coverage to these classes of workers.

for the federal system of old age insurance
There are other extensions/which we believe can appropriately be made at once. For example, the present exemption of banks in the reserve system on the ground they are instrumentalities of the federal government seems anomalous.

Moreover, there appears to be a discrimination, in that banks not in the reserve system are not exempt.

Exclusions from Tax

As examples of errors in the law which experience makes plain, two instances of taxation may be cited. At present, the nominal wages paid to employees of non-profit organizations that are exempt from federal income tax are subjected to taxes for the federal plan of old-age insurance. The inconsistency is apparent; for such wages are not intended to be a source of livelihood for the recipients. In another instance the taxes are now discouraging to employers in steps they may want to take of their own accord for the benefit of employees. Tax must now be paid upon payments an employer may make toward retirement benefits for employees, provision for dismissal wages, medical and hospital care, and similar purposes. Both the nominal wages and the payments we have described should be excluded from the statutory definition of wages, and so made free of tax.

Indeed, payments into funds to support such plans of employers as we have mentioned should be free also from all income taxation, state or federal. All money paid for the benefit of workers should be devoted exclusively for that purpose. For like reasons, the benefits should be free from taxation.

Unemployment Compensation Program

The unemployment compensation program instituted by the Social Security Act is now coming into full effect. All but two states are now paying unemployment compensation. By July, 1939, all states will be making such payments. As of January 31, 1939, the funds of the states on deposit in the United States Treasury, invested as contemplated by law, amounted to \$1,074,000,000. In payroll taxes, the states will collect this year almost \$800,000,000.

The proposals of the Social Security Board for changes in the unemployment-compensation provisions of the Social Security Act of most far-reaching character relate to the extension of coverage. There have been no proposals with respect to a change in the rate of the federal tax, which is a controlling factor for rates of state tax. The Board itself has the important recommendation, that there be a change in the base for the tax, through limitation of the tax to the first \$3,000 of annual compensation exceeding that figure.

Tax Rates

We believe that prior to the making of any changes of an important character there should be a comprehensive study of the existing system, and the results published. There are indications that, in some jurisdictions, at least, the amount of the combined state and federal tax is excessive. For example, the director of the Unemployment Compensation Board of the District of Columbia in reporting upon the constantly growing balance in the unemployment trust fund of the District has said:

"Eventually we would have all the money there is in the District if this surplus is allowed to accumulate as it is now."

In this connection, it is, of course, true that any state may raise or lower the amount of its state tax, but if the tax rate is made less than 2.7% the taxpayers of the state would still be required to pay a total tax to the state and to the federal government of 3%, so long as the federal tax is kept at that figure. We urge, therefore, that careful consideration be given to the desirability of the amendment of the federal act to make it possible for any state to reduce the tax burden of the employers within the state to a rate which will result in the raising of funds only sufficient to meet the needs for unemployment compensation.

Experience Rating

Reduction of collections from payroll taxes may be expected, too, as

provisions for experience rating come into effect. When such provisions are adequate, they promote in an effective manner the purposes of legislation for unemployment compensation. By giving a special incentive to employers to prevent unemployment, if the nature of their business will permit, they tend to keep unemployment at an irreducible minimum.

By providing allowances when an employer's tax paid to his state decreases with his demonstration that he is successfully stabilizing operations and employment, the Social Security Act puts no obstacle in the way of experience rating in the states. The laws of every state should include provision for experience rating of employers. The public interest will be promoted, employers will have savings in payroll taxes in accordance with their accomplishments, and all employees will be benefited. The advantages of experience rating far outweigh the objections made against it on the ground that it may require more record keeping in the public offices administering unemployment-compensation laws.

Employees Covered

The Social Security Board's recommendation as to extension of coverage is the same in regard to unemployment compensation as with respect to old-age insurance, - i.e., to domestic servants and farm laborers. Our attitude on these proposals for extension here is the same as on proposals for similar extension for old-age insurance. In fact, the problems to be solved may be even more difficult in connection with these classes of workers under a law for unemployment compensation than for old-age insurance.

The Social Security Board proposes that the federal act be amended to provide that employers of one or more persons be subject to the federal tax. It will be recalled that the tax in the present federal act relates to employers of eight or more persons.

Decrease of the number of employees bringing an employer within the federal act should be gradual. New administrative difficulties which are sure to arise can then have an opportunity for solution, whereas in a more extreme form they might defy solution. Hence, we believe it unwise to extend the coverage of the federal Act at once to employers of one or more persons, and propose that now an intermediate provision should be made causing an extension to employers of four or more persons.

Tax Base

We welcome the recommendation of the Social Security Board that the federal payroll tax be limited to the first \$3,000 of annual wages as is the

We recommend that the same limitation should be placed in all state laws, case with the tax for old-age insurance. / We agree, too, with the Board that the tax should be assessed on the basis of "wages paid" instead of "wages payable," in order that the basis may be the same in the two parts of the act. In short, we concur with the statement of the Board that the federal unemployment-compensation tax provisions should be combined with those of old-age insurance which relate to employers. Such combination will have the advantage of relieving employers from making two separate returns for payroll taxes to the federal government.

Employee Contributions

We believe also that employees as well as employers should contribute to the funds from which unemployment compensation benefits are paid. This proposal is made not so much from the point of view of relieving employers from a portion of the cost as from the point of view of assuring a direct and continuing interest on the part of the employees, both in administration of the law and when modifications are under consideration.

State Personnel

The most impartial and able administration is alone compatible with the

purpose of such legislation as the provision for unemployment compensation. Such an administration is possible only if all public employees with a relation to the subject are under civil service. We accordingly believe the Social Security Board is taking a correct position in saying that the federal act should be amended so that each state would be required, as a condition precedent to the securing of federal funds, to establish a systematic merit system, to be subject to approval by the Social Security Board.

United States Employment Service

The United States Employment Service, at present in the Department of Labor, is a coordinating agency for state employment services toward which, under legislation of 1933, federal aid is given on a basis of the amount of federal aid being at least matched by the states. There are thus federal expenditures for administrative expenses and federal aid reaching at least \$9,000,000 in the next fiscal year.

But under the Social Security Board there will be grants in the next fiscal year of at least \$26,000,000 of federal money to state employment services. In connection with unemployment compensation, the Social Security Act contemplates that the federal government out of its revenues from the federal tax on payrolls under Title IX is to pay to the states their costs of administration of their legislation for unemployment benefits. Of those costs, a large part is in the greatly increased costs of the state employment services in coordinating their labor exchanges to provisions for unemployment compensation. Persons who become unemployed must be registered at these labor exchanges, efforts must be made to find employment for them, and certificates that employment has not yet been found must be issued as prerequisites to their obtaining payments of unemployment compensation.

Measured in grants of federal money, the functions of the United States Employment Service for the Social Security Board are much more extensive than the

functions for the Labor Department. It would consequently seem obvious that considerations of efficiency call for transfer of the United States Employment Service to the Social Security Board.

Similarity of Definitions

As already indicated, the Committee believes that definitions in the part of the Social Security Act relating to unemployment compensation should be brought into such agreement with definitions in the part relating to old-age insurance that an employer will be able to make one return for payroll taxes under both portions of the law. This process of bringing about uniformity would, of course, require that if there is acceptance of the recommendations in connection with old-age insurance, there should be exclusion from the definition of wages the nominal wages paid by non-profit organizations, and also voluntary payments made by employers for benefits to accrue to their employees, and that there should be the same exclusion in connection with unemployment compensation.

But there may be differences in definitions also between the federal law and state laws for unemployment compensation. Such differences should not be permitted to prevent an employer from obtaining offset against the federal tax up to the maximum of 90% for payments actually made under state laws, even though there may be some differences in definitions from the federal statute. Similarly, when an employer meeting the difficulty which often exists of making a decision as to the state to which he should pay tax on account of some of his employees makes a mistake and pays to the wrong state, he should be allowed offset when he corrects the error and pays to the correct state. An extension of time within which credit may be claimed will be necessary for this purpose.

There are other features and interpretations of the provisions of the Social Security Act regarding unemployment compensation which are peculiar to this part of the law and which, according to experience, should be corrected. An outstanding example is the interpretation of the Bureau of Internal Revenue

that an officer of a non-profit organization, who serves without compensation and for patriotic, civic, or humanitarian motives, is to be counted as an "employee" for the purpose of ascertaining if the organization has eight or more employees, and thus is subject to the federal payroll tax. Such absurdities can only lead to injustice not intended by Congress, and should be ended.

Public Assistance

Advocating a strengthening of provisions for old-age insurance, we do not believe there should be additions to the federal responsibility for the old-age assistance plans of the states. Under the portion of the Social Security Act dealing with the subject, the amount of federal aid is increasing without any additional legislation. In the current year the appropriations of Congress for federal aid to states in their plans for old-age assistance are \$214,000,000. The amount asked of Congress for next year is \$225,000,000. The growth in these figures is apparent from expenditure of federal funds for this purpose in the year ended with June, 1937 - \$124,000,000. The size this appropriation is reaching is especially notable in view of the general policy which is being followed, - with the states providing, with this federal aid, for those who are in need and are not employable while the federal government wholly at its expense provides work for those who are in need and are employable. In providing work relief through the Works Progress Administration the government is this year spending over two and a quarter billions of dollars, or more than in any previous year.

In the face of such large expenditures, and with payroll taxes being levied to an aggregate of 1.5 billions of dollars this year the expenditures and the accompanying burdens should not now be increased. In particular, the contributions of the federal government for old-age assistance should not be increased, as is proposed by the special Senate committee. It may be true that a number of states are undergoing the unpleasant process of recasting their legislation for the financing of old-age assistance, but these states are mainly

belated in giving attention to matters which should have been earlier put right. In a number of ways state legislation has needed revision; for there has been some unsuccessful and even thoughtless experimenting among the states. Certainly, there is no cause in the recasting of state legislation for increasing the scale of federal aid. Even though the increase is suggested in the form of federal aid to the states for special plans for assistance to handicapped persons under 65 years of age, as is now proposed in the bill drafted to incorporate the proposals of the special Senate committee, the principle should be recognized as the same, and both on principle and because of the added expenditures, for which the initial appropriation would be \$125,000,000, this extension should not now be considered.

Neither has there been shown a justification for a related proposal, that states where average incomes and the level of the standard of living are low should receive more than their pro rata of federal aid. The proposal of the special Senate committee is that the contribution of the United States for public assistance of aged persons should be 50% of the amount paid, but in states where the average per capita income is less than the average for the country as a whole the federal contribution should be raised in proportion to the difference. Such a formula would be incomplete, the Social Security Board has pointed out; for there should also be taken into consideration the needs of states. If there were such an addition to the formula, one part would substantially offset the other, and the basis of federal aid would remain much as at present.

Public Health

The Social Security Act contains provisions intended to promote public-health services in the states. For that purpose there is federal aid for states, counties, and other state subdivisions. The Social Security Board testifies that since 1935 there has been a great increase in these activities in the states.

- 16 -

For example, the number of counties with whole-time health officers almost doubled in three years.

But soon after the Social Security Act became law there was appointed an interdepartmental committee to recommend extension of the provisions of the Social Security Act in regard to health activities. The resulting report the President has placed before Congress for study.

With such a subject it is difficult not to be sympathetic, but before deciding upon the merits of any specific proposals it is necessary to ask if the country can now afford them. What would be entailed in public expenditures is apparent from an estimate that, if the recommendations in the report which has now been placed before Congress became fully operative, the annual additional cost would be \$850,000,000.

There seems to be but one conclusion with respect to these proposals. This is the conclusion that they should not be considered until the country can afford them, and can pay for them without burdens that will create new hardships in other directions. Consideration of these proposals, therefore, should be postponed at least until there has been such savings in present public expenditures that there is available a clear sum sufficient to meet the full estimated annual cost of the proposals.

SPECIAL COMMITTEE ON THE SOCIAL SECURITY ACT.

~~2/16/39~~

March 16, 1939

March 16, 1939 ²³⁰

Appendix

PROPOSALS FOR AMENDMENTS TO THE
SOCIAL SECURITY ACT

Proposals from official sources for the amendment of the Social Security Act have been made by:

The Social Security Board.

The Advisory Council on Social Security.

(Advisory to Social Security Board and Senate Committee)

The proposals of the Council are restricted to the provisions of Titles II and VIII on old-age insurance.

Senate Committee to Investigate Unemployment and Relief.

The proposals of the Committee have been put into legislative form through a bill (S. 1265) introduced by Senator Byrnes.

Interdepartmental Committee to Coordinate Health and Welfare Activities. (Representatives of government departments)

The proposals of the Committee have been put into legislative form through a bill (S. 1620) introduced by Senator Wagner.

Federal Old-Age Insurance

BENEFITS

Starting Monthly Benefits in 1940. The Board, the Council and the Senate Committee recommend that monthly benefits begin in 1940 instead of 1942.

Increasing Benefits in Early Years. The Board and the Council recommend.

Benefits for Aged Wives. The Board and the Council recommend.

Benefits for Widows and Orphans. The Board and the Council recommend. The Board proposes that benefits should be paid on behalf of children at least until they reach 16 years of age, and until 18 while attending school.

Disability Insurance. The Board and the Council argue for eventual benefits to permanently disabled persons.

Benefits to Single Annuitants. The Council, only, proposes that benefits payable to unmarried individuals, after the plan has been in operation a number of years, should be reduced.

COVERAGE

The Board "is of the opinion that it is sound social policy to extend old-age insurance to as many of the Nation's workers as possible."

Agricultural Labor. The Council would cover all farm employees if administratively possible by January 1, 1940. The Board would include all agricultural labor except a hired man employed by a small farmer.

Domestic Servants. The Board and the Council recommend their inclusion.

Maritime Workers. The Board and the Council recommend their inclusion.

Non-Profit Organizations. The Board and the Council recommend the inclusion of employees of religious, educational, and charitable organizations.

Personal Service. The Board proposes that, regardless of legal status, all persons in substantial relation of employees be covered including, for example, all insurance, real estate, and traveling salesmen.

FINANCING

Old-Age Reserve Account. The Council states that "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 Board leaves recommendations to the Treasury Department. No recommendations from the Treasury Department have yet appeared.

Revenue from Sources other than Payroll Taxes. The Council recommends the adoption of the principle of distributing the eventual cost of the

old-age insurance system by approximately equal contributions by employers, employees, and the government.

The Board concurs in the proposal for participation by the government.

The Council insists that "the eventual annual cost of the insurance benefits now recommended, in relation to covered payroll and from whatever source financed, should not be increased beyond the eventual annual disbursements under the 1935 Act."

PAYROLL TAXES

Postponement of Increases. A majority of the Council recommends that the increase in the tax rate from 1% each on employer and employee to 1½% on each be allowed to go into effect as provided in the Act on January 1, 1940. Several members of the Council feel that this 50% increase in the tax rate should be reconsidered and that it be allowed to go into effect only after careful study indicates the necessity.

Unemployment Compensation

The Board and the Special Senate Committee have made recommendations for changes in the unemployment compensation provisions of the Social Security Act.

The Senate Committee has also offered recommendations for changes in state laws. The waiting period, according to the Committee, should be shortened to one week. The period of benefits should be lengthened. The amounts of benefits should be fixed at a few standard figures. The complicated tax system should be simplified.

The Committee asserts that federal appropriations to cover the cost of administration should be made available only if state employees are selected through a merit system.

The weekly payments proposed by the Committee are as follows:

<u>Persons earning per week</u>	<u>Weekly payments</u>
Under \$15	\$ 5.00
\$15 to \$20	\$ 7.50
\$20 to \$25	\$10.00
\$25 to \$30	\$12.50
Above \$30	\$15.00

Persons eligible for unemployment compensation who work at least 26 weeks in previous 12 months. Waiting period one week. Duration of benefit period 13 weeks.

The Board says that the most pressing problem in unemployment compensation is improvement and simplification of state laws and their administration.

EMPLOYERS' TAX AND REPORTING PROCEDURES

The Board recommends that the federal unemployment compensation tax provisions be combined with those of old-age insurance to relieve employers from making two sets of tax returns.

EXTENSION OF COVERAGE

The Board recommends that the coverage of unemployment compensation be similar to the coverage it recommends for old-age insurance with certain exceptions. Thus, it would bring under the unemployment compensation provisions agricultural workers, domestic employees and employees of non-profit organizations.

Compensation for Seamen. The Board recommends that a federal act be passed covering all maritime employment which it is not possible or practicable to bring under state laws.

Employers of One or More Employees. The Board recommends that the present federal restriction to employers of eight or more employees be eliminated so that employers of one or more employees would be covered.

ANNUAL WAGES SUBJECT TO TAX

The Board recommends that the federal payroll tax be limited to the first \$3,000 of annual wages as in the case of old-age insurance taxes.

STATE EMPLOYEES UNDER MERIT SYSTEM

The Board, as well as the Senate Committee, recommends that the Federal Act be amended to require that methods of state administration shall include procedures for the establishment and maintenance of personnel standards on a merit basis.

CONSOLIDATION OF FEDERAL AGENCIES

The Board calls attention to the desirability of the merging of the United States Employment Service (now in the Department of Labor) with the Board's Bureau of Unemployment Compensation.

The Senate Committee recommends that the Employment Service be transferred to the Social Security Board.

EXPERIENCE RATING

The Board recommends the clarification of the present complicated provisions of the Federal Act relating to credits against federal taxes allowable to employers in states which have experience-rating provisions.

BASE OF PAYROLL TAXES

The Board recommends that the base of the payroll tax be changed from "wages payable" to "wages paid", thus making it the same as that for old-age insurance taxes.

Public Assistance and Welfare and Health Services

Public Assistance

The Social Security Act contains provisions for grants-in-aid to states on programs of assistance to specified classes of individuals. The bill by Senator Byrnes (S. 1265) would amend the existing provisions and add provisions for assistance to "handicapped individuals."

OLD-AGE ASSISTANCE (TITLE I)

The Byrnes bill would provide grants-in-aid to the states for old-age assistance on the condition that the average payment to the beneficiaries be not less than \$15.00 per month. There is no stipulation with regard to a minimum average payment in the present act.

In the year ended June 30, 1938, the Federal Government granted to the states \$179.1 million for old-age assistance.

DEPENDENT CHILDREN (TITLE IV)

The Byrnes bill would increase the federal participation in benefits from one-third to one-half of the sums expended, but not in excess of \$18.00 per month for one dependent child and \$12.00 per month for each other dependent child in the same home, on the condition that the payments be not less than an average of \$10.00 per month for each dependent child. The Social Security Board also recommends participation by the Federal Government by the granting of funds equivalent to one-half instead of one-third of the payments to the beneficiaries.

In the year ended June 30, 1938, the Federal Government granted \$25.0 million to the states for dependent children.

AID TO THE BLIND (TITLE X)

The Byrnes bill would amend the Act to provide for grants-in-aid to the states for assistance payments to the blind on the condition that the

average payment to the beneficiaries be not less than \$15.00 per month. The present act contains no such stipulation.

Payments to the states for the year ended June 30, 1938, amounted to \$5.2 millions.

AID TO HANDICAPPED INDIVIDUALS (PROPOSED TITLE XA)

The Byrnes bill would provide for grants-in-aid to the states for assistance payments to handicapped individuals. A handicapped individual is defined as a needy person between the ages of 16 and 65 years, not an inmate of a public institution who is unable to perform work because of physical or mental disability, other than impairment of vision.

Grants-in-aid would be made to the states on the condition that the average payments to the handicapped persons be not less than \$15.00 per month.

The bill would authorize an appropriation of \$125. millions for the fiscal year ending June 30, 1941.

Welfare and Health Services

The Social Security Act contains provisions with respect to welfare and health services as follows:

- Maternal and Child Welfare. Title V.
- Maternal and Child Health Services, Part 1.
- Services for Crippled Children, Part 2.
- Child-Welfare Services, Part 3.
- Vocational Rehabilitation, Part 4
- Public Health Work, Title VI.

The bill by Senator Wagner (S. 1620) would amend the existing provisions, authorize larger appropriations, and add new provisions.

MATERNAL AND CHILD HEALTH SERVICES (TITLE V, PART I)

The Wagner bill would widen and make more explicit the provisions of the Act with regard to grants-in-aid to states for promoting the health of mothers and children, and medical care during maternity and infancy.

In the year ended June 30, 1938, the Federal Government granted \$3.7 million to the states for maternal and child health services.

The Wagner bill would authorize the following appropriations:

1940 - \$8 millions 1941 - \$20 millions 1942 - \$35 millions

MEDICAL SERVICES FOR CHILDREN (TITLE V, PART 2)

The Wagner bill would broaden the provisions of the present act which relate to crippled children by providing for medical care of children not crippled or otherwise physically handicapped.

In the year ended June 30, 1938, the Federal Government granted \$2.7 million to the states for services to crippled children.

The Wagner bill would authorize the following appropriations:

1940 - \$13 millions 1941 - \$25 millions 1942 - \$35 millions

CHILD WELFARE SERVICES (TITLE V, PART 3)

No proposals for changes in the Act have been made.

Payments to the states for the year ended June 30, 1938, amounted to \$1.3 millions.

VOCATIONAL REHABILITATION (TITLE V, PART 4)

No proposals for changes in the Act have been made.

PUBLIC HEALTH WORK (TITLE VI)

The Wagner bill would widen and make more explicit the provisions of the Act with regard to grants-in-aid to the states.

In the year ended June 30, 1938, the appropriation was \$8 millions.

The Wagner bill would authorize the following appropriations:

1940 - \$15 millions 1941 - \$25 millions 1942 - \$60 millions

Proposed Additional Health Services

Senator Wagner's bill proposes health services in addition to those now contained in the Social Security Act.

HOSPITALS AND HEALTH CENTERS (PROPOSED TITLE XII)

Appropriations would be authorized for grants-in-aid to states to construct and improve existing hospitals and to assist the states for a period of three years in defraying the operating cost of added facilities. The amounts proposed are:

1940 - \$8 millions	1941 - \$50 millions	1942 - \$100 millions
---------------------	----------------------	-----------------------

MEDICAL CARE (PROPOSED TITLE XIII)

Appropriations would be authorized for grants-in-aid to states to extend and improve medical care for persons suffering from severe economic distress. The amounts proposed are:

1940 - \$35 millions - thereafter as required.

Temporary Disability Compensation

The Wagner bill would authorize appropriations for grants-in-aid to states to assist the states in the development, maintenance and administration of plans for temporary disability compensation.

The bill defines disability as inability to work or unfitness for work by reason of injury or illness. Compensation would be limited to cash benefits for not more than 52 weeks for such disability not arising out of or in the course of employment.

The report of the Interdepartmental Committee on which the proposed legislation is based recommends payroll taxes as the source of the funds for benefits on account of so-called temporary disability. The Wagner bill, of course, contains no provisions for the raising of funds required for any of the parts of his program.

The bill would authorize an appropriation of \$10 million for grants-in-aid to the states for the year ended June 30, 1940.

Variable Grants

The Social Security Board and the Senate Committee on Unemployment and Relief propose to change the present system of uniform percentage grants for public assistance to a system whereby the percentage of the total cost in each state met through a federal grant would vary, between limits, in accordance with the relative economic capacity of the state. This proposal is embodied in the Byrnes bill (S. 1265).

Similarly, the Wagner Bill would apply the same principle to grants-in-aid to the states for welfare and health services.

Merit System

The Board proposes that the Social Security Act be amended to require that methods of state administration shall include procedures approved by the Board for the establishment and maintenance of personnel standards on a merit basis. Both the Byrnes bill and the Wagner bill would establish this requirement.

Secretary Morgenthau's recent statement to the House Ways and Means Committee urging drastic revision of the social security tax plan has met with a universal chorus of approval from editorialists. They are in general agreement that his opposition to the scheduled increase in the tax rate is the first concrete step that has been taken in the direction of improving business confidence after recent utterances of the Administration looking toward business appeasement.

The following newspapers carried editorials approving of the Secretary's recommendations:

Wilmington Journal
Peoria Journal-Transcript
Boston Transcript
Newark News
Jersey City Journal
Utica Observer-Dispatch
Baltimore Evening Sun
Rochester Democrat & Chronicle
Minneapolis Tribune
Indianapolis Times
St. Louis Post-Dispatch
Cincinnati Enquirer
Providence Journal
Pittsburgh Post-Gazette
Wilmington News
Grand Rapids Herald
Canton Repository
Lynchburg News
Washington Star
New York Sun
Baltimore Sun
Hartford Times
Boston Post
Boston Globe
Worcester Telegram
Rockford, Ill., Star
Bridgeport Post
Nashville Tennessean
Huntington Advertiser
Indianapolis Star
Lynn Telegram-News
Greensboro News
St. Louis Globe Democrat
Los Angeles Times
Paterson News
Chicago Times
Springfield, Ohio, Sun
Miami News

Charlotte News
Manchester Union
Lawrence Tribune
Springfield, Mass., Republican
Syracuse Herald
Watertown Times
Greenville News
Boston Post
Washington Post
New York Post
New York Sun
Texarkana Gazette
Mankato, Minn., Free Press
Altoona Tribune
Springfield, Ill., Journal
San Francisco Chronicle
Durham Herald-Sun
Buffalo News
Allentown Chronicle & News
New Bedford Standard-Times
Dallas News
Easton, Pa., Express
Muncie Star
Butte Standard
Pawtucket Times
Macon Telegraph
Tulsa World
Cleveland Plain Dealer
Norfolk Virginian-Pilot
Shreveport Times
Chatanooga News
Providence Evening Bulletin
Birmingham Age-Herald
Kalamazoo Gazette
Lansing Journal
New Haven Journal-Courier
Abbeville Citizen-Times
Jackson News

A 'canned' editorial of approval appeared in following Scripps-Howards papers:

Memphis Press-Scimitar
Cleveland Press
Columbus Citizen
Washington News
New York World-Telegram
El Paso Herald-Post
Denver News

Cincinnati Post
Pittsburgh Press
Knoxville News-Sentinel
Evansville Courier
Birmingham Post
San Francisco News
Houston Press

The following newspapers carried editorials expressing tacit or grudging approval of the Administration's recommendations but urge an even more thorough overhauling of the whole social security program:

McKeesport News
Christian Science Monitor
New York Herald-Tribune
Wheeling Intelligencer
Youngstown Vindicator
Greenville News

Little Rock Democrat
Wall Street Journal
New York Times
Camden Courier
Augusta Kennebec Journal

The following newspapers urge even further cuts in social security taxes and adoption of a pay-as-you-go policy in full:

Buffalo Courier Express

Cincinnati Times-Star

No opposition is expressed relative to the proposal of Secretary Morgenthau for cutting the tax burden. Some of the newspapers in the last two groups above warn of increased costs of the program and criticize the Administration for postponing revision of the Social Security Act until this time.

The following excerpts are from editorials published in a few of the more outstanding newspapers:

"The Morgenthau statement is of particular importance because he has been repeatedly identified as the one person responsible for writing the full reserve into the Social Security Act...If there is to be abandonment of the full reserve system, it is difficult to see how it can be partial...Welcome indeed is the assurance of Secretary Morgenthau."—New York Sun

"The Administration took an ungrudging and courageous step yesterday to help business. It deserves ungrudging praise....Opponents of the New Deal...should give the Administration honest applause for admitting and remedying a mistake."—Scripps Howard Editorials

"Morgenthau is to be congratulated for having candidly acknowledged past miscalculations and for proposing specific corrective steps."—Washington Star

"Morgenthau's suggestion...is a welcome evidence of the Government's realization that the present law can be revised without loss of prestige for the Administration or the principle of social security."—Baltimore Evening Sun

"Morgenthau's announcement...has two very satisfactory results...Legislation should easily be obtainable...Principle of social security now has no avowed enemies."—Cleveland Plain Dealer

"The change proposed by the Secretary should in all conscience be adopted...Here is at least one constructive step in the right direction in which the President concurs."—St. Louis Globe-Democrat

"Morgenthau's recommendation...has met with an enthusiastic reception."—Washington Post

"Secretary Morgenthau puts his finger on a vital recovery need when he recommends the moderating of old age insurance pay roll taxes levied under the social security act...Task of convincing Congress should not be difficult."—Minneapolis Tribune

"Seems wise to limit the amount of taxes to a figure which will build up a reasonable reserve fund...Present law is a punishing one."—Boston Post

"An appeasement to cheer about has come from the Administration...For the benefit of recovery the pay roll taxes cannot be brought down to that point too soon."—San Francisco Chronicle

"Response to the honest criticism of informed opponents is the first plank of true liberalism; therefore one would not be surprised if President Roosevelt in his next speech puts forward the claim that the New Dealers are now more liberal than ever."—Syracuse Herald

MEMORANDUM FOR THE SECRETARY:

April 3, 1939.

There were very few general comments on the Social Security statement. Our records total 3 from New York State, 1 from Pennsylvania, 1 from Connecticut. These were of the type that were given a general acknowledgment and thanks. All were favorable, and they came from the average run of newspaper reader.

Dr. Burgess wrote the Secretary as follows: "I liked your statement about the Social Security tax very much indeed. I'm glad that in suggesting the tax reduction you also emphasized the importance of preserving the psychological principle of a participating pension plan. That is a point of the utmost importance which many people miss. The reception that your suggestion has received seems to make it clear that your recommendation will be adopted, and I believe it will constitute perhaps the most important step which has been taken so far in definite encouragement to enterprise." Was thanked for his letter in the Secretary's absence, and told that it would be brought to the Secretary's attention immediately upon his return.

Frederic A. Delano wrote summarizing the whole development of the problem of Social Security legislation, and saying in particular, "I have been reading in the daily papers of the very substantial victory which I think you achieved in getting Congress to see the desirability of relaxing the rules on Social Security. It is also interesting to note the whole development of this problem. * * * I therefore rejoice in the success which your Department and the Administration have achieved." Mr. Delano asked for a copy of any resume that might be made of favorable editorials and comments. Mr. Gaston acknowledged the letter and promised to show Mr. Delano the collection of editorials now being made.

Mr. Thomas F. Myers, Jr., Publisher, Myers Newspapers, Chicago, Illinois, sent a long telegram, beginning, "We are grateful for reconsideration of the Security taxes on payrolls. The burden has wiped out our profits over the year". Mr. Myers asked for a statement in full, which was sent with Mr. Gaston's reply.

A telegram from Mr. J. B. Aicken, Charleston, West Virginia, alludes to old age benefit tax, but mainly criticizes the unemployment compensation tax.

Mr. George Robinson, Miami Beach, Florida, asked for a full transcription of the testimony, and estimates of future disbursements in a personal letter to Mr. Gaston.

Platow, Lyon and Stebbins, 60 Broad Street, New York City. The Secretary's plans for the reduction of the payroll tax will aid business,

- 2 -

and that is, after all, the most important thing the Administration can do. It was well known that the reserve feature of the Act, calling for more than our present large national debt, would not stand up under scrutiny. The change of front with respect to this feature will also have a stabilizing effect upon the country in general.

The only comment critical of the Secretary was really critical of the entire Social Security program. It came from Mrs. Devereux of New York City. She states that the whole program is a burden and an expense, and gives the usual "line" about using Social Security funds for current expenditures.

Harry K. Taylor, Hartford, Connecticut, writes, "I think that your plan to postpone Social Security tax increases is sound, and the most constructive thing that has been proposed by the Administration for a long time. I am not alone in my thought. Scores of Hartford men have expressed themselves today in favor of your idea. We think you sane, and we need sanity now."

Warren Publications, Incorporated, Cambridge, Massachusetts, sent a form letter expressing themselves in favor of postponing of further increases of payroll taxes. Enclosed Colliers editorial entitled, "Make Social Security Secure". This is evidently being sent to various Administration officials.

TREASURY DEPARTMENT

245

INTER OFFICE COMMUNICATION

DATE 4/3/39

TO

Miss Chauncey
~~MR. GASTON~~

FROM

MRS. FORBUSH

To hold in the Secretary

Supplementary Receipts on the Secretary's

Social Security Statement

Letter from Mr. Lew Hahn, National Retail Dry Goods Association, New York City, saying as follows: "The Board of Directors of the National Retail Dry Goods Association, at its March meeting, adopted a resolution in support of your proposal that the Social Security tax rate on employer and employee be left unchanged at one per cent for the present. It was the opinion of the Board of Directors that this proposal, if adopted, would be of considerable encouragement and help to the business situation. With best wishes, "

One letter from an unemployed worker suggesting that all taxes be removed from employers, and that any money needed to finance Social Security should be raised by taxes on the labor-saving machinery which is causing unemployment.

4/3/39

MR. GASTON

MRS. FORDUSH

Supplementary Receipts on the Secretary's
Social Security Statement

Letter from Mr. Lew Hahn, National Retail Dry Goods Association, New York City, saying as follows: "The Board of Directors of the National Retail Dry Goods Association, at its March meeting, adopted a resolution in support of your proposal that the Social Security tax rate on employer and employee be left unchanged at one per cent for the present. It was the opinion of the Board of Directors that this proposal, if adopted, would be of considerable encouragement and help to the business situation. With best wishes, "

One letter from an unemployed worker suggesting that all taxes be removed from employers, and that any money needed to finance Social Security should be raised by taxes on the labor-saving machinery which is causing unemployment.

WFF/aba

April 10, 1939

For the Secretary

I learned that Mr. Eccles is greatly perturbed over the fact that, whereas he has agitated and worked for a year and more for some changes in the Social Security setup, the Secretary has now come forward and gotten the publicity and credit for such changes as a measure of business appeasement.

He has approached at least one newspaper man to write a story putting him on a pedestal as having a record of talk in that field. He asks, however, that none of his ideas be attributed to him in the form of direct quotation but rather put in the form of statements made by others as to his activities.

Upm

April 26, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



The following additional comment on Social Security ~~affairs~~ by State Chairmen in response to Farley's letter, have been received.

Gory Gogg, Lewisburg, West Virginia - Approves "reasonable" contingency fund in place of large reserve. Thinks custodians of fund should be outside appointees instead of Government officers ex officio.

Robert Humphreys, Frankfort, Kentucky - Favors proposal to postpone tax increase. Believes old age benefit and unemployment compensation are favored by Kentucky.

TO:

Mrs Klotz.

249

From: Mr. GASTON

April 26, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The following additional comment on Social Security efforts by State Chairmen in response to Farley's letter, have been received.

Gory Gogg, Lewisburg, West Virginia - Approves "reasonable" contingency fund in place of large reserve. Thinks custodians of fund should be outside appointees instead of Government officers ex officio.

Robert Humphreys, Frankfort, Kentucky - Favors proposal to postpone tax increase. Believes old age benefit and unemployment compensation are favored by Kentucky.

MR. MORGENTHAU'S OFFICE TO

Mr. Hanes	Mr. Gaston ✓
Mr. Gibbons	Mr. McReynolds

=====

Mr. Alexander	Mr. Harper
Mr. Allen	Mr. Helvering
Mr. Bartelt	Mr. Irey
Mr. Batchelder	Mr. Julian
Mr. Bell	Mr. Kilby
Mr. Berkshire	Mr. Lochhead
Mr. Bernard	Miss Lonigan
Mr. Birgfeld	Mr. Maxwell
Mr. Blough	Adm. Peoples
Mr. Broughton	Miss Reynolds
Mr. Bryan	Mr. Rose
Mr. Cannon	Mrs. Ross
Mr. Davis	Mr. Sloan
Mr. Delano	Mr. Spangler
Miss Diamond	Miss Switzer
Miss Flanagan	Mr. Tarleau
Mr. Foley	Mr. Thompson
Mr. Graves	Mr. Upham
Mr. Haas	Mr. White
Mr. Hall	Mr. Wilson
Mr. Hanna	

THE POSTMASTER GENERAL
WASHINGTON

252



April 24, 1939.

My dear Mr. Secretary:

The attached is copy of letter Mr. Farley
received from Mr. Gory Hogg, Chairman of the
Democratic State Committee, Lewisburg, West
Virginia. It is in relation to the Social
Security Tax.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "William J. Bray".

William J. Bray,
Secretary to the
Postmaster General

*P.S. also one from
Robert Humphreys*

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington.

C O P Y

DEMOCRATIC STATE COMMITTEE
CHARLESTON? W. VA.
P. O. BOX 1210

253

Lewisburg, W. Va.
April 19, 1939

Hon. James A. Farley, Chairman
National Democratic Committee
Hotel Biltmore,
New York, N. Y.

My dear General Farley:

Your letter relative to suggested changes in the Social Security Tax received.

After consulting with a number of our representative citizens it seems to me that the carrying on of this program from current collections rather than from the income of an enormous fund should be much more practicable, provided of course, a reasonable fund is accumulated to keep current collections in balance with current expenditures under circumstances which might occasion some falling off of the current collections.

Whether the Administration be in the hands of a Board or a single official, it is my belief that it should be a Board or an official chosen solely for the purpose and not a Board made up ex-officio from officials charged with other and varied responsibilities.

The use of the word "contributions" in place of "taxes" is more euphonious and probably more accurate in describing the process, though undoubtedly, all such exactions wear pretty heavily on taxes.

With best wishes, I am

Sincerely,

Gary Hogg.

C O P Y

STATE DEMOCRATIC HEADQUARTERS
NEW CAPITAL HOTEL
FRANKFORT, KENTUCKY

254

April 20, 1939

Hon. James A. Farley
Chairman, Democratic National Committee
New York, N.Y.

My dear Chairman:

Your letter concerning the proposed change, in the Social Security tax has been given much consideration by me.

In my opinion, Proposal Four would be the wisest proposal. There are approximately twenty-five thousand employers in Kentucky who are required to pay the Social Security tax to the Federal government. With business conditions at a low ebb this tax is somewhat burdensome to the employer and the increase as now fixed by law will make it more burdensome each year until 1943. The total amount of this tax together with the Unemployment Compensation will amount to a considerable percentage of the entire payrolls. Naturally, this tends to force the employer to reduce his personnel. I am doubtful of the proposition of the law being administered by a board. The administration of this law does not effect the taxpayers to any great degree. They are interested only in the reduction of taxes and stabilization of employment so that they will know with some degree of certainty what to expect in the future.

The question of whether these taxes should be called taxes or contributions is immaterial. The Kentucky Unemployment Compensation law calls them contributions and I favor that, however, I think it is unimportant.

The people of Kentucky are much in favor of Old Age Benefit and Unemployment Compensation, however, I believe they are opposed to the proposition of building up such a huge reserve fund.

I do not set myself up as an authority on these matters and this is only my observation but I believe it is the prevailing feeling in Kentucky.

Very truly yours,

Robert Humphreys
Frankfort, Kentucky

RH:L

WASHINGTON
OFFICIAL BUSINESS

255



PENALTY FOR PRIVATE
PAYMENT OF POSTAGE

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington.

April 28, 1939.

MEMORANDUM

TO: Miss Chauncey
(For the Secretary)

FROM: Mr. Gaston

The Democratic National Committee ^{man} of the State of Washington replies to Mr. Farley's request for an opinion as to Secretary Morgenthau's recommendations on Social Security taxes and reserve:

- (1) Generally approves H.M.Jr's plan
- (2) Multiplicity of tax reports is burdensome
- (3) Relief of agriculture is the urgent matter in the State of Washington.

MR. MORGENTHAU'S OFFICE TO

Mr. Hanes
Gibbons

Mr. Gaston ✓
Mr. McReynolds

257

Mr. Alexander
Mr. Allen
Mr. Bartelt
Mr. Batchelder
Mr. Bell
Mr. Berkshire
Mr. Bernard
Mr. Birgfeld
Mr. Blough
Mr. Broughton
Mr. Bryan
Mr. Cannon
Mr. Davis
Mr. Delano
Miss Diamond
Miss Flanagan
Mr. Foley
Mr. Graves
Mr. Haas
Mr. Hall
Mr. Hanna

Mr. Harper
Mr. Helvering
Mr. Irey
Mr. Julian
Mr. Kilby
Mr. Lochhead
Miss Lonigan
Mr. Maxwell
Adm. Peoples
Miss Reynolds
Mr. Rose
Mrs. Ross
Mr. Sloan
Mr. Spangler
Miss Switzer
Mr. Tarleau
Mr. Thompson
Mr. Upham
Mr. White
Mr. Wilson



THE POSTMASTER GENERAL
WASHINGTON

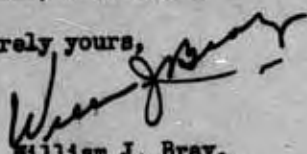
April 26, 1939.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington.

My dear Mr. Secretary:

Attached is copy of another letter
Mr. Farley has received concerning the
Social Security tax. It is from Mr.
E. A. Carroll, Democratic National Com-
mitteeman, Wenatchee, Washington.

Sincerely yours,


William J. Bray,
Secretary to the
Postmaster General

WJB:SJM

C O P Y

DEMOCRATIC NATIONAL COMMITTEE
STATE OF WASHINGTON
OFFICE OF THE NAT'L. COMMITTEEMAN

259

April 20th, 1939

Hon. James A. Farley, Chairman
Democratic National Committee
Hotel Biltmore
New York City, N.Y.

Dear Jim:

Due to illness I have been delayed in answering your communication of April 5, 1939 regarding a suggested change in rates in the Social Security Tax to the Ways and Means Committee of the House of Representatives. My personal opinion quite agrees with the Secretary of the Treasury that a lowering of the tax with the objective of abandoning the idea of a forty-seven billion dollar reserve would meet with the approval of workers and employers of this State. The State of Washington is not classed as industrial and consequently we are not subjected to the security tax complaints that are so pronounced in other states. The general opinion over the state is that business is being burdened unnecessarily with tax statements and demands for examinations that could well be coordinated under some plan of reorganization of departments.

The Secretaries suggestion of administration of the fund meets with my approval, however; There are many that would object to this administration. It seems to me that changing the name "taxes" to "contributions" meets with the approval of all fair minded citizens.

The State of Washington, is far more concerned at this time with unsatisfactory problems facing agriculture and horticulture than they are with the reconstruction of the tax set up. Growers are going farther in the red every day, and it is regrettable that they are forgetful of the many favors of the past, but it is very apparent that agriculture will have to show a profit to the growers or our position will grow more unfavorable each month.

Very sincerely,

E.A.C.

E. A. Carroll

Office of the Postmaster General
Washington, D. C.
OFFICIAL BUSINESS



PENALTY FOR
PAYMENT



Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington.

260

May 2, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: National Committeemen's comments on Social Security recommendations.

Charles E. Broughton, Democratic National Committeeman, Sheboygan, Wisconsin, writes as follows:

Approves delaying tax increase if it will not injure "effectiveness of Social Security."

Also likes suggestion of "contributions" in place of taxes and board of trustees.

May 2, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: National Committeemen's comments on Social Security recommendations.

Charles H. Broughton, Democratic National Committeeman, Sheboygan, Wisconsin, writes as follows:

Approves delaying tax increase if it will not injure "effectiveness of Social Security."

Also likes suggestion of "contributions" in place of taxes and board of trustees.

MR. MORGENTHAU'S OFFICE TO--

Mr. Hanes
Mr. Gibbons

Mr. Gaston ✓
Mr. McReynolds

263

Mr. Alexander
Mr. Allen
Mr. Bartelt
Mr. Batchelder
Mr. Bell
Mr. Berkshire
Mr. Bernard
Mr. Birgfeld
Mr. Blough
Mr. Broughton
Mr. Bryan
Mr. Cannon
Mr. Davis
Mr. Delano
Miss Diamond
Miss Flanagan
Mr. Foley
Mr. Graves
Mr. Haas
Mr. Hall
Mr. Hanna

Mr. Harper
Mr. Helvering
Mr. Ireys
Mr. Julian
Mr. Kilby
Mr. Lochhead
Miss Lonigan
Mr. Maxwell
Adm. Peoples
Miss Reynolds
Mr. Rose
Mrs. Ross
Mr. Sloan
Mr. Spangler
Miss Switzer
Mr. Tarleau
Mr. Thompson
Mr. Upham
Mr. White
Mr. Wilson



THE POSTMASTER GENERAL
WASHINGTON

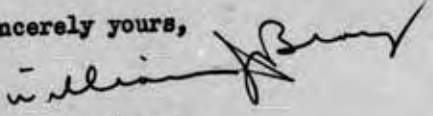
April 29, 1939.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington.

Dear Mr. Secretary:

Attached is copy of letter Mr. Farley
has received regarding the Social Security
tax from Mr. Charles E. Broughton, Democratic
National Committeeman, Sheboygan, Wisconsin.

Sincerely yours,


William J. Bray,
Secretary to the
Postmaster General

WJB:SJM

C O P Y

265

C. E. BROUGHTON
DEMOCRATIC NATIONAL COMMITTEEMAN
SHEBOYGAN, WISCONSIN

April 25, 1939

Hon. James A. Farley, Chairman
Democratic National Committee
Biltmore Hotel
New York, New York

Dear Mr. Farley:

I think the proposal of Secretary of the Treasury Mr. Morgenthau as to changes in the Social Security tax law would meet with popular favor. I know it would in this vicinity, and this is typically I think, of the sentiment in the average industrial community.

I think that the omission of the increases in the tax rate of from one cent to one and one half cents in 1940 would have a stimulating effect, if the Secretary of the Treasury Morgenthau believes that we can do that without injuring the effectiveness of Social Security. By stepping up the rate in 1943 we would delay the increased tax, and there are always arguments justifying delay.

I think our political enemies would like to see increases in 1940, hoping thereby to tie up the Social Security and the increased tax as a campaign argument. This will be eliminated or minimized if the present rate were left effective without the increase. I also like the suggestion that the word contributions be substituted for taxes and that a board of trustees be set up comprising the three agencies, the U. S. Treasury, labor and a representative from the Social Security Board.

Trusting that in my humble way I have offered some advice that will be helpful, I am

Sincerely yours,

C. E. Broughton

C. E. Broughton
AZ

Office of the Postmaster General
Washington, D. C.
OFFICIAL BUSINESS



PENALTY FOR
PAYMENT OF



Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington.

266

THE POSTMASTER GENERAL
WASHINGTON

267



May 3, 1939

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

Attached is copy of letter Mr. Farley
has received regarding the Social Security
Tax from Mr. Scott Ferris, Democratic National
Committeeman, Oklahoma City, Oklahoma.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "William J. Bray", is written over the typed name.

William J. Bray,
Secretary to the
Postmaster General

WJB:MK

SCOTT FERRIS
Cotton Exchange Building
Oklahoma City, Okla.

April 21, 1939

Honorable James A. Farley
Chairman Democratic National Committee
Hotel Biltmore
New York City, New York

My dear Mr. Chairman:

In the rush of things, your letter has been neglected.
I have been out of town. So Sorry. It deserved an earlier reply.

I haven't gone into this tax situation technically. Personally, I favor lowering of taxes everywhere you can and every time you can and do it quickly. We just can't keep on piling taxes mountain high on people and get away with it. The ultra conservative democrats and repoublicans will form a coalition and go against us and tip over our boat. I know this won't be a very intelligible letter but I just know you can't constantly keep on taxing those willing to work and earn and give to thos unwilling to do anything for what they get. It just won't work and is just a dangerous position to have us in.

I beg of you, my dear Mr. Chairman, to do what you can to get us out of it and the reduction of taxes is the best route I know to go.

With great respect, I am

Very sincerely yours

Scott Ferris

RECEIVED DEPARTMENT

1939 MAY 4 AM 8 59

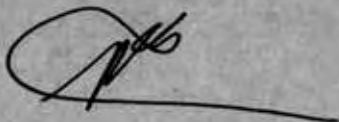
OFFICE
SECRETARY OF TREASURY

May 9, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The Michigan National Committeeman, writing to Mr. Farley, expresses no opinion on your Social Security recommendations but encloses extracts from three letters from manufacturers whose opinion he asked. All favor postponing the tax increase. Two say calling the tax "a contribution" would be mere camouflage and two complain generally of high taxes.

A handwritten signature, possibly "J. B.", in dark ink, located in the lower right quadrant of the page.

May 9, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The Michigan National Committeeman, writing to Mr. Farley, expresses no opinion on your Social Security recommendations but encloses extracts from three letters from manufacturers whose opinion he asked. All favor postponing the tax increase. Two say calling the tax "a contribution" would be mere camouflage and two complain generally of high taxes.

MR. MORGENTHAU'S OFFICE TO--

Mr. Hahes
Gibbons

Mr. Gaston
Mr. McReynolds

271

Mr. Alexander	Mr. Harper
Mr. Allen	Mr. Helvering
Mr. Bartelt	Mr. Irey
Mr. Batchelder	Mr. Julian
Mr. Bell	Mr. Kilby
Mr. Berkshire	Mr. Lochhead
Mr. Bernard	Miss Lonigan
Mr. Birgfeld	Mr. Maxwell
Mr. Blough	Adm. Peoples
Mr. Broughton	Miss Reynolds
Mr. Bryan	Mr. Ross
Mr. Cannon	Mrs. Ross
Mr. Davis	Mr. Sloan
Mr. Delano	Mr. Spangler
Miss Diamond	Miss Switzer
Miss Flanagan	Mr. Tarleau
Mr. Foley	Mr. Thompson
Mr. Graves	Mr. Upham
Mr. Haas	Mr. White
Mr. Hall	Mr. Wilson
Mr. Hanna	



272

THE POSTMASTER GENERAL
WASHINGTON

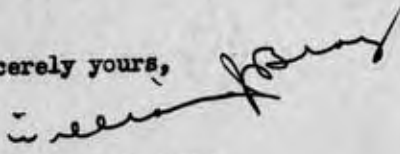
May 8, 1939.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

Attached is copy of another letter Mr.
Farley has received relative to the Social
Security tax. It is from Mr. Edmund C.
Shields, who is Democratic National Committee-
man for Michigan.

Sincerely yours,


William J. Bray,
Secretary to the
Postmaster General

WJB:SJM

C O P Y

273

SHIELDS, BALLARD, JENNINGS & TABER
Lawyers
1400 Olds Tower Building
LANSING, MICH.

April 21st, 1939

Hon. James A. Farley
Democratic National Committee
Hotel Biltmore
New York, New York

Dear Farley:

Your letter of April 5th, concerning
changes in the Social Security Tax, was duly received.

I wrote to various heads of manufacturing
and business concerns and received a few replies.

I am enclosing a copy of some of the letters
and as soon as I receive further information I will send
it on to you.

Sincerely,

Ed

Edmund C. Shields

" I have read your letter of April 10th, very carefully and discussed it with our accounting department. We feel that the #4 plan indicated in your letter is the best plan. If this plan is followed without any step-ups until 1943 the whole thing can be thoroughly considered before that time and if necessary re-arrangements can be made in 1943 which would lighten the load and perhaps not affect the efficiency of the social security plans.

"As far as changing the account to make the tax read "Contributions" is concerned for old age security instead of "taxes", I do not think this is fair at all. This is nothing more or less than a tax forcibly collected. A contribution is something you give of your own free will. It seems to me this thing is just as much of a tax as anything else we pay and should not be camouflaged in any way."

"I believe that item #4 would be the best request to make, at the present time. If I understand it correctly this would mean that the present rate of 1% would remain until 1943. At that time or possibly before, business might be in a position to stand a larger tax. This tax, together with a number of others, is such a burden on the smaller units that some of them have been forced to cease operations. I, therefore, feel the best thing would be to impose as little tax on them as possible for any source until business has developed to a point where it can pay more from earnings. I have never been against taxes, when business warrants paying them. I believe what this country needs today, chiefly, is industry--men at work and everyone employed; and to do this, industry must be permitted to have greater earnings, before they are called upon to pay increased taxes."

"Your letter seems to proceed upon the theory that the taxpayer should choose one of the four alternatives set forth. In our judgment, any one of the alternatives would create a tremendous and dangerous backlog of idle funds. It would seem to me the proper grading of the taxes would be a budget set up for each particular year and the tax assessed to meet that budget only, be the amount a half of one percent or more than one percent, as that year's needs might require.

I don't believe there is question in the mind of any business man but that these tax matters are retarding business progress today. Therefore, let us proceed to reduce and eliminate as many of these taxes as possible. In other words, if costs could be reduced inside of the purchasing power of the majority of our people, business would be better. But it seems that taxes have been placed on corporations by politicians of both parties for some time past to the extent that costs have been increased to where the large percentage of the people are unable to buy except at long intervals. This has reduced employment, and I cannot see any great future for business until production costs are reduced considerably.

As far as calling this a contribution instead of a tax, I am not much of a believer in camouflage. Let us face the issue squarely, as I do not believe any person desires to contribute, and I also feel if the matter was left to a group of business men to work out this situation, that they could work it out in the manner of insurance where the costs to the employer as well as the employee would be considerably less than they are now and where the benefits to the needy would be from three to four times as great.

You compensation tax is handled through private enterprise. There is no reason why Social Security Tax and Unemployment Tax could not be handled in the same way. Therefore my suggestion is to get government out of business, and the benefits derived would be as stated above, several times greater.

I am not writing this from a political standpoint, as both parties are guilty. However, the time has arrived when business is not much more than tax collection agency for the government, and unless there is some relief given to business, you will find more and more of them getting out, which will further reduce employment for small businesses which had to stand the brunt of these taxes, and still they furnish by far the greater part of the employment. But, as years go by, we find it very much more difficult to operate, and I think the time has arrived when taxes should be simplified to the extent at least of where the average intelligent person could handle his own business without being compelled to employ experts.

I fully believe that the one percent which is now charged to both employer and employee will be amply sufficient to take care of the demands upon it at any time."