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Chairman Eccles

Payroll Taxes for Social Security

Kenneth B. Williams

Richard A. Musgrave

Attached is some information about the present Social Security law and the Wagner-Murray-Dingell bill.

Neither the increase in the payroll tax scheduled for January 1 under the present act, nor the 12 per cent payroll tax contained in the Wagner-Murray-Dingell bill make sense in terms of postwar fiscal policy.

The Administration is apparently strongly committed to fight for the immediate increase in the payroll tax from 1 to 2 per cent for employers and employees each. In this fight it has the vigorous support of organized labor, and of others favoring a strong Social Security program. Social security supporters in general are not aware of the fiscal implications of the payroll tax but are keenly concerned about maintaining the contractual nature of the present approach. Those who want to freeze the present tax (Vandenberg, et al), are the very group opposing an expanded Social Security program. This creates a dilemma for those in your position who favor both expanded social security and less reliance on payroll taxes.

It will probably require a veto to obtain the scheduled tax increase. However, a veto would seem to commit the Administration to the payroll tax principle in financing an expanded Social Security program. If such a commitment is to be avoided it may be desirable to do something about it now.

Possible lines of action might be:

1) Fight hard to obtain the scheduled 2 per cent increase but be very careful to avoid commitments, particularly in a possible veto message, regarding the financing of an expanded program.

2) Do not veto but in letting the act become law explain clearly and forcefully the reasons for the change in attitude so that it can not be misinterpreted as a political defeat or as a change in intentions to push for a greatly expanded program.

3) Alone or in conjunction with (2) above, appoint a new Committee on Economic Security to examine into the financing of an expanded Social Security program. Include on that committee people with an understanding of fiscal policy as well as people concerned with other aspects of Social Security. This is desirable quite apart from the currently scheduled tax increase in order to educate the public and crystalize Administration opinion in favor of a government contribution to social security out of the general budget and against heavy reliance on payroll taxes as contained in the Wagner-Murray-Dingell bill and supported by the Social Security Board.

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