Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 17, 1938.

To Chairman Eccles

From Lauchlin Currie

Subject: Recommendations of Social Security Advisory Council.

The long list of specific recommendations made by the Social Security Advisory Council give the impression that the suggested changes, if adopted, would greatly increase the benefits payable under the old-age insurance provisions of the Act, reduce the payroll taxes to be levied, and hence eliminate or greatly mitigate the deflationary effects of building up the old-age reserve.

As a matter of fact, the recommended changes would do nothing of the sort. The increases in benefits are extremely conservative; they will benefit primarily the dependents and survivors of married men; and most of the additional cost of these measures will be met by reducing benefits payable to single men. The Advisory Council explicitly states its opposition to increasing eventual total disbursements (i.e. disbursements in years after the system has taken on its full load of aged annuitants) beyond the eventual total disbursements contemplated by the original Act. Disability benefits, one of the most important methods of increasing disbursements in the early years, are recommended in principle, but the Council is divided as to whether they should be introduced in 1940 or should receive "further study". No consideration is given to postponing the next scheduled increase in the old-age payroll tax (Title VIII). This increase will be from 2 to 3%, will be levied on payrolls beginning in January, 1940, and will check consumption by an additional amount of at least a quarter of a billion dollars a year.

The problem of the further scheduled increases in this tax to an eventual level (in 1949) of 6% is reserved "for further study". At that rate, the tax will bring in at least $1,500,000,000 a year, appreciably more than all individual income taxes amounted to in the relatively prosperous year 1937.

The following table shows the probable expenditures and receipts under these recommendations:

(Amounts in millions of dollars)

	Tax Receipts	Benefits	Reserve (end of period)
July- Dec. '39	260	12	1,500
Jan.- June '40	400	100	1,830
Fiscal '40	660	112	1,830
Calendar '40	800	240	2,120
Calendar '45	1,100	580	5,000

These figures show the magnitude of the check on consumption involved in the operations of the old-age insurance system for the next seven years more effectively than any verbal statement.

The recommendations as to the extension of the coverage, if adopted, would increase the excess of tax collections over benefits in these years. It is recommended that the two most important categories of workers now excluded, farm laborers and domestic servants, should be covered as to taxes, <u>but not as to benefits</u>, by January, 1940. Workers in occupations already covered will have paid taxes for three years (1937, 1938, 1939) when they begin to receive benefits. If the same procedure is adopted for the two newly covered categories, they will receive no benefits before January, 1943.

The recommendations as to financing the insurance scheme, while apparently they embody some progress in thinking about this subject, do not really touch on the essential point of the net deflationary effect of the present procedure and <u>have no bearing whatsoever on the operations of the system during the next four years.</u> The Council says only, "The introduction of a definite program of Federal financial participation in the system will affect the consideration of the future rates of taxes on employers and employees and their relation to future benefit payments." This is not a recommendation, but merely a statement of fact which does little or nothing to clarify public thinking on the problem. The way is left open for a possible Federal contribution in the future to be financed by taxes <u>as deflationary as the payroll tax itself.</u>

The significance of the numerous recommendations for "further study" made by the Advisory Council requires comment. The existing Act was "studied" for a year before it was enacted into law. The Advisory Council "studied" the recommendations it has just made for a year and a half. The matters recommended for further study are all questions on which there is conflict, not primarily about facts, but about principles. An impressive mass of statistical information has already been developed out of the operations of the Act, and conclusions drawn from this information will be subject only to minor modifications, not fundamental revisions, on the basis of additional information. Regardless of the intentions of the Advisory Council, the effect of these recommendations is to leave the operations of the old-age scheme, with precisely the same deflationary effects pointed out when it was enacted, essentially unchanged.