

To: Chairman Eccles  
From: Lauchlin Currie

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THE EFFECT ON ESTIMATES OF SOCIAL INSURANCE TAXES AND  
BENEFITS OF CHANGING THE UNDERLYING  
ASSUMPTIONS MADE BY THE SOCIAL SECURITY BOARD

The Social Security Board estimates a net withdrawal from purchasing power during calendar year 1940 of only \$300 million, attributable entirely to the operations of the old-age scheme. The following table shows this estimate in detail under the column headed "Estimate B". The column headed "Estimate A" shows a net withdrawal of about \$1,350 million. This estimate is derived by making the following assumptions which differ from the assumptions made by the Security Board.

A. Estimate A assumes that the increase in the rate of the old-age tax (Title VIII) from 2% to 3% will be effective as a withdrawal from purchasing power during four full quarters of the calendar year 1940, since the increased rate will begin to accrue on payrolls beginning with January. The Security Board estimates assume that the rate increase will be effective during only three-quarters of 1940, since the Treasury will collect taxes at the increased rate during only three-quarters of 1940.

B. The estimates of old-age tax collections used by the Security Board assume an average level of taxable payrolls about the same as the level used during the calendar year 1938. Estimate A assumes a level of taxable payrolls equal to that of the calendar year 1937. Taxable payrolls during the calendar year 1937 were about 13% higher than taxable payrolls during 1938.

C. The Security Board estimates of old-age benefits assume that Congress will decide to make benefit payments to everyone in covered occupations over the age of sixty-five for whom it is possible to obtain adequate wage records of any sort. The Security Board itself does not go this far in its specific recommendations to the President. Its recommendations on this point to the President are so general that it is not possible to estimate any definite figure of the benefits involved. In estimate A it has been assumed that old-age benefit payments will be moved up to January 1940 from January 1942 and that no other important changes will be made in the benefit provisions of the Security Act.

D. Differences between the estimates of the State and Federal unemployment taxes are attributable to the fact that the Security Board assumes an average level of payrolls in 1940 equal to that of 1938, while estimate A assumes an average level equal to that of 1937.

E. The Security Board estimate of unemployment benefits assumes that liberalizations in the State benefit laws and entrance of new States into benefit-paying status will more than offset the effect of increasing employment upon benefit payments. Estimate A assumes that the entrance of new States into benefit-paying status will add about 40% to the volume of benefits already being paid, and that this total will show some further decline during 1940 as the result of increasing employment. It should be noted that none of the liberalizations of State laws anticipated by the Security Board have actually been made as yet; and that the effect of increasing employment will not only decrease the volume of benefits paid under existing laws but will decrease pressure on State legislatures to liberalize the present laws.

COMPARATIVE ESTIMATES OF SOCIAL INSURANCE TAXES,  
CONTRIBUTIONS, AND BENEFITS, CALENDAR YEAR 1940.  
(Millions of dollars)

	<u>Estimate A</u> <u>Accrual basis</u>	<u>Estimate B</u> <u>Cash basis</u>
Old-age		
Taxes under present coverage	870	715
Extension of coverage	40	40
Total taxes	<u>910</u>	<u>755</u>
Benefits -		
(Without changes)	40	40
(With probable changes) <u>1/</u>	75	500
Unemployment - <u>2/</u>		
Contributions collected by States	900	749
Federal taxes	130	91
Total unemployment taxes	<u>1,030</u>	<u>840</u>
Unemployment benefits	400	760
Unemployment administration grants	<u>80</u>	<u>80</u>
Total unemployment disbursements	480	840
Net withdrawal (assuming probable changes in old-age benefits)		
Old-age	795	300
Unemployment	550	-
Total	<u>1,345</u>	<u>300</u>

1/ For estimate A, moving up annuity payments to January, 1940 without other changes in benefits provisions; for estimate B see paragraph C in preceding text.

2/ Exclusive of railroad unemployment compensation system.