March 20, 1939.

Personal and Confidential

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Henry:

In accordance with the conversation I had with you on Saturday, I am enclosing herewith a letter to be delivered to the President setting forth my views on the contemplated amendments to the old age insurance program.

Although the letter is shorter than the memorandum I left with you on Saturday, the substance is the same with the exception of the last paragraph.

Yours sincerely,

LBC:em

March 20, 1939.

The President,
The White House.

Dear Mr. President:

In my capacity as a member of the Fiscal and Monetary Advisory Board I have carefully considered the three main proposals made by the Social Security Board in connection with amendments to the old age insurance program, viz., commencing benefit payments in 1940, liberalizing benefit provisions, and permitting the scheduled tax increase in 1940 to go into effect. I am in favor of commencing benefit payments at the earliest possible moment, and of liberalizing, to the fullest extent feasible, benefit provisions. I am opposed to the scheduled increase in payroll taxes.

For three years the collection of payroll taxes in excess of benefits, with the resulting accumulation of a reserve fund, has imposed a serious drag on recovery and has necessitated increased Government expenditures elsewhere. On both unemployment and old age insurance account the deduction from consumer buying power amounts to one billion dollars a year for the years 1937-39. This deduction will be even greater in 1940 unless increased benefits exceed increased tax collections. Actually, it appears that the tax increase will yield from $250 million to $300 million additional, while the contemplated increase in benefits will amount only to between $100 million and $200 million.

It appears an opportune time to raise the whole question of the financing of old age insurance. The trend in all other countries, and in expert and popular opinion in this country, has been away from the reserve fund principle. Even if the tax increase is postponed, the reserve fund will continue to accumulate through 1942. If the tax is increased, this will tend to extend still further the period over which the fund will grow.

In view of the gravity of our major economic problem of deficient consumer buying power relative to our productive capacity, I urge that no further increase in the payroll tax rate take place next year. The economic repercussions resulting from a continued excess of tax collections over benefits will do more, in my judgment, to jeopardize the contributory system than would postponing the scheduled tax increase.

I am confining my recommendations to the specific proposals placed before the Advisory Board. I cannot refrain from adding, however, that in my judgment the proposals of the Social Security Board do not meet the demand in this country at this time for an adequate national old age security program.

Respectfully,

M. S. Eccles

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