

June 15, 1939.

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

Dear Mr. Secretary:

To complete your set of memoranda I am enclosing a copy of the statement on old age security I left with the President. I should very much appreciate it if you could give this statement some study as I am thoroughly convinced that a national old age pension program is inevitable and that my fears regarding the adverse effects of the pending benefit amendments will be amply borne out by the middle of next year.

I should also appreciate your sending me a complete copy of the material presented yesterday to the President by the Fiscal Board.

Sincerely,

M. S. Eccles,
Chairman.

LC:rhs

June 13, 1939.

OLD AGE SECURITY

1. The economic basis of the old age insurance program is unsound. It is operating as a gigantic saving device at a time when there is a surfeit of saving; it is decreasing consumption when we have inadequate consumer buying power. It would be appropriate to a capital-poor country where a curtailment of consumption was necessary in order to divert more resources into the making of plant and equipment. It has no possible economic justification, however, in our capital-rich, consumption-poor economy.

2. The old age insurance program is nullifying the recovery efforts of the Administration. By the end of this year nearly \$2 billion accumulated in the Fund will have been withdrawn from consumption. Hence, the effect of nearly \$2 billion of deficit spending will have been completely offset. Even under pending amendments another one-half billion dollars will be added to the Fund in 1940.

3. Our chronic difficulty since 1929 has been under-consumption. The stimulation of consumption through WPA is waning in popularity. The field of old age pensions offers the most feasible avenue for increasing consumption relative to income. We have closed this avenue and our old age program is intensifying rather than easing our basic problem.

4. Payroll taxes in England amount only to 60 percent of old age pensions, the remainder being financed out of general revenues. Through the stimulation of consumption, England has been able to sustain a high level of activity with less capital expenditures than formerly.

5. The existing old age insurance program is politically vulnerable. The Federal Government is collecting heavy taxes for old age security and its only disbursements have been through the separate state assistance systems. The real demand in this country is for old age pensions for the existing aged population, rather than for old age insurance for the gainfully employed in certain occupations. A contributory system will never be allowed to develop unless the aged and the people in uncovered occupations, including agriculture, are adequately cared for.

6. The proposed postponement of the tax increase will merely prevent the situation from getting worse. The proposed benefit amendments will add a negligible amount to buying power next year and will prove to be a political liability of major proportions. The pending benefit amendments are unbelievably complicated, administratively impossible, and in operation will make the old age insurance program terrifically

unpopular. They will merely result in payments to a relatively few people who can qualify on more or less arbitrary and accidental grounds. To those who can qualify, the payments will in many cases be hundreds of times in excess of taxes paid. Others will have paid taxes but, for various reasons, which will appear completely arbitrary to the individuals concerned, they will not qualify. It is a conservative estimate that during the next few years not less than 50 to 100 thousand persons who pay taxes will be disqualified each year from receiving benefits by certain arbitrary provisions. These exclusions will be concentrated on the groups least able to bear them, such as employees in the low wage areas of the South, in regions of heavy unemployment, and in areas where the character of the industries is such that rates of sickness and disability are above normal. Thirty-one per cent of the women in covered occupations will pay taxes and yet will not be able to qualify for benefits. Every Congressman will have in his district substantial numbers of persons or survivors, or dependents of persons who have received more wages and paid more taxes than some persons or survivors who have received benefits but find themselves nevertheless disqualified. In other words, pending benefit amendments, instead of making the old age insurance program less politically vulnerable, will, by the middle of 1940, make it more vulnerable to attack.

7. The overwhelming demand of the country, particularly among people who are on other measures generally in support of the New Deal, is for a relatively simple national old-age pension program. It is believed that a scheme along this line can be worked out which would greatly broaden the coverage of the existing old age assistance program, would preserve regional differentials in payments, would permit the contributory system to evolve naturally, would contribute enormously to the growth in consumption, and yet would not entail any more federal and state appropriations than are now being made.

8. A national old age pension program is politically feasible. In the Gallup poll reported on February 25, 1939, 94 percent stated that they "believed in Government old age pensions". For pensions of \$40 a month for a single person and \$60 for a couple, 87 percent signified their willingness "to pay a sales tax or an income tax in order to provide such pensions". In the Gallup poll reported on April 21, 1939, in answer to the question, "Do you think Federal spending should be reduced by 10 percent on old age pensions"? 86 percent replied, "No." In the Fortune poll, reported in April 1939, a substantial majority of the people who believed that the President "is essential" approved of larger pensions, whereas a substantial majority of the people who completely disapproved of the President were opposed to larger pensions. By economic groups, 63 percent of the poor favored larger pensions. The Fortune comment on this poll was to the effect that "more liberal pension legislation would

apparently be not only popular but politically expedient for the Administration."

9. A national old age pension system is inevitable. It is certain that, in view of the political situation and the increasing number of old people, it is but a question of time before such a program will be initiated. In that case it may happen that this Administration which has the interests of the lowest third of the population at heart and which has blazed the way for the adoption of security in old age as a national policy will be blamed for collecting billions in taxes for old age insurance while a subsequent administration will receive credit for adopting an effective old-age program with little, if any, additional cost to the Government.



THE SECRETARY OF THE TREASURY
WASHINGTON

June 23, 1939

Dear Marriner:

Thank you for a copy of the statement on old age security which you left with the President. I have read it with interest but confess my position on the matter remains substantially the same. However, the subject of social security is in no sense a closed issue with me and I shall be glad to discuss the matter further with you in the hope that our differences in opinion may be resolved.

There is enclosed a complete copy of the material presented to the President by the Fiscal and Monetary Advisory Board on June 14, 1939.

Sincerely,

A handwritten signature in dark ink, appearing to read "Andrew Mellon", written in a cursive style.

Hon. Marriner S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

Enclosure