

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**Office Correspondence**Date October 3, 1941To Chairman EcclesSubject: Changes in Social SecurityFrom Martin KrostCoverage

MK

I have received the following information through Mr. Currie's office for your confidential use.

The Social Security Board is making the following recommendations. It is not clear whether these recommendations have been accepted by the President and by the Treasury.

The Board is recommending extension of coverage under the Old Age Insurance System to agricultural laborers, domestic servants, employees of non-profit organizations, farm operators and other self-employed persons and government employees. The Board is recommending extension of coverage under unemployment insurance to employees of establishments having less than eight workers not covered under the present system.

The Board estimates that the extension in coverage and an increase in the tax rate for old-age insurance from 2 to 4 per cent would raise the yield of this tax from the present annual rate of about \$800 million to about \$2 billion. The Board proposes to raise the present 3 per cent tax for employment insurance to 4 per cent and to nationalize the system which is now administered by the State governments with different scales of employment benefits prevailing in each State. They estimate that these changes would raise the yield of this tax from its present level of about \$900 million to \$1,600 million. The change-over to a fully federalized basis will require some time and it will not be possible to make this change fully effective before 1943. The Board also proposes to set up a system of disability and hospitalization benefits and to levy a special 2 per cent tax for this purpose yielding about \$800 million a year.

The combined effect of these proposals would be an increase from the collections of \$1,700 million in 1942 that would be made if the system were left unchanged to \$3,700 million. In 1943 collections would increase to \$4,400 million.

The old-age taxes are levied one-half upon employers and one-half upon employees. The unemployment taxes are levied wholly upon employers. It is generally believed that except in special situations the employers' part of the tax is passed on to the consuming public in the form of higher prices or back to employees in the form of lower wages than would be paid in the absence of the tax.