Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 23, 1937.

To Chairman Eccles

Subject: Coyle on the Old-Age Provisions of the Social Security Act.

From Lauchlin Currie
LBC.

Attached herewith is a memorandum on Coyle's Age Without Fear, prepared by Dr. Gayer.

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To Mr. Currie

Subject: Coyle on the Old-Age Provisions of the Social Security Act.

From Mr. Gayer

A.D.G.

A review of Age Without Fear
by David Cushman Coyle.

The reasoning and recommendations of this book are interesting in view of the controversies which threaten to break out anew over the future of the Social Security Act. Coyle feels that the act needs a good deal of revision, but in contrast to those who, like Senator Vandenburg, demand immediate drastic amendment providing for a pay-as-you-go old age annuity scheme, Coyle advises caution and gradual modification.

It is written with Coyle's usual charm and persuasiveness, but is by no means clear, especially as to ultimate objectives. The scope is broad and the monetary aspects of the problem are constantly kept to the fore, but the treatment is popular and often superficial. It is almost bare of figures. On the whole I think it represents a fairly sound approach to the problem of economic stability, as far as one can judge from such a brief treatment of the fundamental underlying problems. But cyclical and long-run problems are somewhat confused. After talking to Coyle I find that the ambiguities are explained by his feeling, on the one hand, that the act is full of defects, and on the other, that the principle is so desirable that it should not be jeopardized in any way.

In common with almost all authorities he regards the prospective $47 billion reserve as dangerous. He also feels that the present payroll taxes rise too rapidly. He therefore recommends that the payroll taxes on both

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workers and employers be kept at 1 percent "until further developments give a line on what to do next", instead of stepping them up at three-year intervals. No action, however, is in his opinion needed this year. The undesirable features of the present plan will not be of any serious consequence for many years to come.

Workers now reaching 65 should receive larger annuities. It is unfair, however, to take their "unearned annuities" out of the contributions of younger workers. The proposal follows that annuities should be fixed at a decent minimum but the additional cost financed out of general taxation.

The coverage of the present plan, which now includes only about half the workers of the country, should be extended to include those now omitted, by gradual stages.

The means test under the Federal-state pensions provisions is undesirable and should ultimately be eliminated. The means test would disappear if the contributory plan were gradually supplanted by the pension system, under the proposals advocated. Meanwhile pensions could be immediately increased by means of Federal "bloc grants" to states in proportion to their populations of old people.

By slow stages of modification the scheme would evolve into "a widespread contributory system supported partly by yearly payments from workers and employers and partly by general taxes". Under this system the reserve would be kept small enough to have no serious consequences for the maintenance of economic stability. On the contrary the latter would be facilitated, because the government contributions would be financed by "heavy increases in the graduated personal income tax". This would have the effect of maintaining the consumer purchasing power which is necessary to support continuous stable

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prosperity. But this system would constitute only an intermediate stage.

Coyle's ultimate objective envisages a system of non-contributory universal old-age pensions in place of the present system of contributory annuities under Title 2 and of charity under Title 1. It would be financed by a graduated income tax and the reserve fund would be eliminated. No means-test would be applied. Pauper and millionaire would alike receive the pension as a right. At thirty dollars a month the cost to the Treasury would be around $5½ billion. In many respects it is a little "Townsend plan". "Some kind of general old-age pension seems to be the only practical way to escape from the disadvantages of the means-test."

Mr. Coyle sees in our new social security system "more than a rescue squad for the masses crushed by the juggernaut of modern industry. It can be made an effective instrument for steering the juggernaut on the high road of continued prosperity. It can pump money and buying power from Wall-st into Main-st." Just what this means is not clearly explained. Coyle speaks a lot in metaphors and parables.

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