January 10, 1939.

RECOMMENDATIONS RELATING TO THE SOCIAL INSURANCE PROGRAM

It appears that there is a distinct likelihood of payroll tax collections exceeding benefit payments on both old age and unemployment insurance account of around $1.5 billion in 1940. In 1937 the increase in payroll taxes and the decline in W. P. A. expenditures were contributory factors in the decline in consumption that preceded the downturn in business activity. An increase in payroll taxes in 1940 is scheduled under the present law and there is a strong likelihood that W. P. A. expenditures will be cut in that year. Hence there is a danger of a repetition of the 1937 experience.

We recommend, therefore, that the possibilities of lessening the disparity between payroll tax collections and benefits in 1940 be explored, and, where feasible, adopted. In default of this, expenditures elsewhere in the budget will have to be expanded, hence resulting in a larger deficit to compensate for the deflationary effects of the present social insurance program and to avoid the danger of a downturn.

A lessening of the disparity between tax collections and benefit payments would:

(a) lessen the danger of a decline in consumer buying power in 1940.

(b) mark a return to the general principles of the plan recommended by the Committee on Economic Security in 1934 which envisaged a gradual stepping up of tax rates so that a three percent rate was not to be reached until 1947.

(c) strengthen the whole social insurance program against attack by lessening the disparity between current costs and current benefits.

(d) not increase the budgetary expenditures or bookkeeping deficit.