

January 11, 1939.

THE REPORT OF THE SOCIAL SECURITY BOARD

With respect to the Report of the Social Security Board we believe that the following broad considerations should be kept in mind:

1. Regard should be taken of the implications of this Report- from the standpoint of the effect of the adoption of its recommenda- tions on the net income creating expenditures of the federal government. The Board definitely recommends an increase of the payroll taxes from 1 percent to $1\frac{1}{2}$ percent beginning January, 1940, without knowledge of what scale of benefit payments Congress will enact. It is our view, based on considerable study by our economic advisers, that the scope of benefit payment which the Board is prepared to recommend to the Ways and Means Committee will not by a considerable margin equal the tax receipts for the calendar year 1940 in the event that the tax rates are stepped up. We believe therefore that the effect of the proposed tax step-up will definitely prove deflationary. We therefore face the danger of a recurrence of the sharp curtailment of net income creating expenditures as in 1937, unless this deflationary effect is offset by an equivalent budget deficit. This extra and quite unnecessary deficit might prevent the balancing of the budget at even the \$80,000,000,000 income level. We believe that the Board's Report works counter to the general position taken in your budget message.

2. Instead of starting from the definite recommendation that the tax rates be stepped up, we believe that your report to Congress should put to the fore a recommendation favoring the liberalization

of early benefits payments, together with a broadening of the coverage. Specific recommendations along this line have been made by the Advisory Council on Social Security. After Congress has determined what the scale of benefit payments will be there will be time enough to advance tax rates if necessary. This, indeed, is ^{all the more true in view of the fact -} ~~the recommendation of several~~ ^{that the Reserve Fund will in Jan 1, 1940 amount to \$1,700,000,000, which amounts} ~~members of the Advisory Council.~~ ^{to three and one-half years' benefit payments, assuming the}

3. We believe that public opinion in this country has definitely ^{scale of} moved toward support of a pay-as-you-go plan. We believe that the Board's ^{benefits} Report runs counter to public and economic opinion, that its adoption ^{estimated} would have deflationary consequences, that it would impose a tax on mass ^{by the} consumption, and drain off a stream of consumer purchasing power. We ^{Board} believe that your support of this Report would afford your political opponents a fresh opportunity to attack the whole Social Security Program along the lines that were so effective in the last campaign.

4. The fear has been expressed that a postponement of this tax step-up would mean an end to the contributory system. We believe this fear is unfounded. We believe that the recommendation of the Advisory Council on Social Security - that contributions to the old age insurance system should be placed on a three-way basis, borne equally by employer, employee and the federal government - is sound, and that a declaration of Congress to this effect would clearly indicate to the public what the respective obligations of each party should be. As the number of eligible recipients increases year by year, the load of benefit payments will rise and the tax rates will have to be stepped up bit by bit. We believe that this necessary increase in tax rates should be borne equally by employers, employees and the federal government. The realization

that the costs must be borne by each of these factors should help to keep the scale of benefit payments within a proper bound. It is certainly important not to promise the impossible and thus so wreck the whole program.