January 12, 1939.

MEMORANDUM #1

A. We recommend that the Report of the Social Security Board be sent directly to Congress instead of being addressed to you and transmitted by you to the Congress for the following reasons:

1. We believe that the report contains many highly controversial recommendations from the monetary and fiscal standpoint. In the event that the report were transmitted by you to Congress such transmittal would carry a tacit approval by you of the Board's position in relation to these controversial issues. Some of these controversial issues, particularly bearing on monetary and fiscal policy, we believe are at variance with the general tenure of your budget message.

2. We believe that there is the further reason for the Board's sending the report directly to Congress, namely, that the statute creating the Board calls for continued study and report to Congress with respect to modifications and amendments which it deems necessary. Indeed, the Board's report itself refers to this provision. It is, therefore, natural and proper that a report recommending changes in the Act should be made directly to Congress.

B. We believe it important in order that the Monetary and Fiscal Committee may duly perform its functions that the Social Security Board keep the Monetary and Fiscal Committee informed with respect to proposals which it intends to make to Congressional committees, insofar as such proposals have a bearing on monetary and fiscal policy.

January 11, 1939

MEMORANDUM #2

We believe that the Report of the Social Security Board contains in particular one recommendation which is of serious fiscal import and if adopted would impose a drag upon the current policy as recommended in your budget message. The Board recommends that the payroll taxes as now provided in the act be increased on January 1, 1940, from one percent to one and a half percent of payroll, applicable both to employers and employees.

Even if we accept the estimate of the Social Security Board with respect to the probable maximum benefit payments which may emerge from a Congressional enactment in response to their recommendations, it would still be true in our judgment that the payroll tax collections in the calendar year 1940 would be likely to exceed the benefit payments by $400 million. There appears, therefore, to be no need for stepping up the tax rates in January 1940. To do so would only add to a reserve which by January 1940 already will amount to $1,700,000,000, or, in other words, to about three times the estimated maximum probable benefit payments.

We would call attention to the fact that in the year 1938 the sums deducted from consumption and the stream of consumer purchasing power by the unemployment insurance taxes and the old age insurance taxes in excess of benefit payments amounted to about $1,000,000,000. It appears that this huge sum acted in a powerfully deflationary manner. This sum amounts to a substantial proportion of the budget deficit of that year. Had this deduction from purchasing power not been made, the budget would have been much more nearly in balance. In 1939 the excess will again be about $1,000,000,000 and will impose a drag on recovery. In the event that the tax rates are stepped up in 1940 this development will continue.

We believe that it would be extremely unfortunate at this time for you tacitly to approve the stepping up of these taxes before it is known what the scale of benefits will be as the result of amendments which Congress may make liberalizing benefit payments and extending coverage. After the benefit scale has been established there will be time enough to increase the tax rate in the event that benefit payments in fact prove to exceed current tax receipts. This is the more true in view of the fact that there will already be in the fund on January 1, 1940 a reserve of $1,700,000,000, enough to provide for probable maximum benefit payments as estimated by the Board for almost three years.

We believe that the American public and economic opinion throughout the country has moved very strongly toward the principle of a pay-as-you-go policy and that the public strenuously resists the accumulation of consumption taxes which are currently unnecessary for benefit payments.

The only basis upon which the Social Security Board appears to justify the stepping up in taxes appears to be that the increase in taxes will help to educate the American employer and employees to the contributory system. We believe, however, that the contributory system itself has already been endangered by the imposing of excessive taxes. We believe that the contributory system can be amply safeguarded by a declaration of Congress to the effect that as the cost of benefit payments increases in the future with an increasing number of eligible recipients, the increased cost load must be borne equally on a three-way basis by employers, employees, and the Federal Government. In this manner the entire public will be made aware of the importance of keeping benefit payments within a proper bound so that the burden will not be unduly severe on each of these parties.