January 12, 1939.

STATEMENT OF REASONS FOR NOT APPROVING THE REPORT OF THE SOCIAL SECURITY BOARD

From the monetary and fiscal point of view the importance and urgency of making as rapid a transition as possible from an accumulated reserve to a pay-as-you-go basis in connection with old age insurance cannot be overstressed.

The Report of the Social Security Board approves the imposition of a higher payroll tax rate in 1940 and hence envisages the further accumulation of a reserve fund, and the further net withdrawal of purchasing power.

Thus, endorsement of the Report, either implicitly or explicitly, implies acceptance of a principle of financing old age insurance for which there is a rapidly decreasing expert and popular support. We are the only important country that has applied private insurance concepts to a social insurance program.

The collection of payroll taxes in excess of benefit payments imposes a serious drag on recovery. We are faced with a long term problem of deficient consumer buying power, - with an excess of savings over outlets for private capital expenditures. To continue a system which aggravates this deficiency intensifies our problem and postpones the day when it will be possible to balance the budget without interfering with business recovery.

In 1937 the excess of payroll tax collections over benefits was a major contributory factor in the decline in consumption that preceded the downturn in business.

In 1938, about $1,000,000,000 had to be spent by the Government merely to offset the deflationary effects arising from the unemployment and old age insurance programs and in 1939 another $1,000,000,000 will have to be spent for the same purpose. This has the effect of increasing the deficit without securing a corresponding increase in buying power.

In 1940 and thereafter, the increase in payroll tax collections arising from (a) increasing payrolls, (b) an extension of coverage, and (c) a fifty percent higher tax rate, may entail a repetition of the 1937 experience or the necessity of incurring a much larger deficit than would otherwise be necessary.

Since it is likely that tax accruals on old age account will exceed $900 million in 1940; since it is highly improbable that liberalized benefit provisions will result in a sum in the next few years approaching this figure or even the figure of about $600 million in taxes that would be collected if tax rates were not advanced; and since the reserve fund will amount to $1,700,000,000 at the beginning of 1940, I feel strongly that it would prove a serious error to permit the scheduled increase in the payroll tax rate to go into effect.

In any case, we should defer a commitment to increase taxes until we can secure a better idea of the magnitude of benefit payments Congress will adopt.

Our tax system already bears too heavily on consumer buying power. To increase taxes further on payrolls would be contrary to the spirit of the Budget Message as they would have "repressive effects on purchasing power".