

SOCIAL SECURITY BOARD

WASHINGTON, D. C.

January 11, 1939

Honorable Marriner S. Eccles,
Acting Chairman,
Fiscal and Monetary Advisory Board,
Federal Reserve Board Building,
Washington, D. C.

Dear Mr. Eccles:

I gathered from our meeting of yesterday that your Committee in giving further consideration to the report of the Social Security Board on changes in the Social Security Act would be, chiefly, if not solely, concerned with what you have termed the possible disparity between future payroll taxes and future benefits payable, particularly during the calendar year 1940.

The Social Security Board believes that this disparity will be much less than that indicated by the original figures you submitted. However, in the nature of the case, accurate figures are not obtainable, since so much depends upon the action of Congress and state legislatures in liberalizing benefits under the old age insurance and unemployment compensation systems. While this lack of exact figures may make it difficult for your Committee to reach a conclusion, it does not affect the Social Security Board's considered judgment that the retention of the payroll tax provisions now contained in the Social Security Act is essential for the establishment of the principle of contributory social insurance in this country (which involves some sacrifice to obtain protection as a matter of right). However, I should like to point out that, unless your Committee is also considering the possibility of reducing tax rates already in effect, the amount involved cannot exceed \$300,000,000 on the basis of your original figures.

In support of the Social Security Board's judgment that a change in the present tax provisions would jeopardize the contributory social insurance system, I should like to mention the following considerations:

1. Contributory social insurance is a new thing in this country.
2. The contribution rates are very low in comparison with contribution rates in other countries.
3. It is certain that there will be considerable liberalization of benefits during this present year.

4. Employers and employees look upon the increase of $\frac{1}{2}\%$ next year as reasonable and have adjusted their minds to it. All of the employee representatives and the employer representatives (with one exception) on the Social Security Advisory Council voted in favor of this increase.

5. Stability in payroll taxes is most important. If the increase of $\frac{1}{2}\%$ does not occur in 1940 and if benefits are liberalized under the Old Age Insurance system, the present rates would very shortly be insufficient. Thus, uncertainty as to future payroll taxes would be substituted for certainty.

I am sending a copy of this letter to the other members of the Committee so that they may have it before the meeting this afternoon.

Assuring you of my appreciation of the opportunity to discuss this matter with you, I am

Sincerely yours,


Chairman