

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 13, 1939.

To Chairman Eccles

Subject: Old Age Security

From Lauchlin Currie
LC

This is Mr. Goldenweiser's draft on old age security. I like parts of it very much and I should like to prepare a new draft incorporating them.

OLD AGE SECURITY

Our present program of old age pensions is adapted to a country that is short of capital funds and is going through a period when the volume of current consumption needs to be restrained. It is completely unsound for a country like ours which has an enormous and steadily growing amount of unused capital funds and at a time when it is suffering from an excessively low volume of consumption.

By accumulating a reserve fund of \$1,700,000,000 through a tax on consumption our old-age pension plan has intensified the fundamental economic difficulty with which this country is struggling. This difficulty is finding outlets or offsets to current savings that would be sufficient to prevent national hoarding and thus to restore an unobstructed flow of national income.

Not only is the present old-age pension program economically unsound, because it is ill adapted to the needs of this country at the present time, but it is vulnerable politically. The ever-growing political demand is for an over-all pension system for those who are old now rather than for a plan of insurance which at present taxes gainfully employed workers in certain groups and which will not disburse any substantial amount of funds for ^{some} ~~many~~ years, in fact not until a sizeable proportion of these workers will have reached old age. The program's effective operation is too far in the future and even then it is restricted by the exclusion of many occupations, such as domestic service and agriculture. For these reasons, the system which was adopted as a long-time program in 1935 is undergoing revision in 1939, even before benefit payments have begun.

The proposed revisions, furthermore, will not meet the current demands, as they do not begin to meet the problems of the existing aged population. They will merely result in payments to a relatively few people who can qualify on more or less arbitrary and accidental grounds. To those who can qualify, the payments will in many cases be hundreds and even thousands of times in excess of taxes paid. Others will have paid taxes but, for various reasons, which will appear completely arbitrary to the individuals concerned, will not qualify. It is a conservative estimate that during the next few years not less than 50 to 100 thousand persons who pay taxes will be disqualified each year from receiving benefits. These exclusions, moreover, will be concentrated on the groups least able to bear them, such as employees in the low wage areas of the South, in regions of heavy unemployment, and in areas where the character of the industries is such that rates of sickness and disability are above normal. Every Congressman will have in his district substantial numbers of persons who having paid more in old-age taxes than other persons, will find these others receiving benefits, while they themselves are disqualified for reasons that will appear arbitrary and unjust. The proposed revisions are unbelievably complicated and in operation will make the program terrifically unpopular, and politically even more vulnerable than the present system.

The overwhelming demand of the country is for a relatively simple national old-age pension program. Such a program can be worked out by broadening the coverage of the existing old age assistance, pre-

servicing the idea of regional differentials in payments, and permitting the contributory system to evolve naturally. Such a plan would contribute greatly to the growth in consumption, and yet would not entail any more Federal and State appropriations than are now being made. The Gallup and Fortune polls have demonstrated the widespread sentiment in favor of old-age pensions, particularly among supporters of this Administration.

It is certain that, in view of the political situation and the increasing number of old people, it is but a question of time before such a program will be initiated. In that case it may happen that this Administration which has the interests of the lowest third of the population at heart and which has blazed the way for the adoption of security in old age as a national policy will be blamed for collecting billions in taxes for old age insurance while a subsequent administration will receive credit for adopting an effective old-age program with little, if any, additional cost to the Government.

In view of these considerations and the difficulty of accomplishing an adequate revision during this session of Congress, it would seem best to postpone revision of the benefit structure until the next session and to be content at this session with an amendment deferring the scheduled increase in old-age taxes. This would permit time for an economically sound program of old-age pensions to be worked out, and would avoid the adoption of the revisions now proposed, which would have only a negligible effect in stimulating consumption and because of their arbitrariness and ~~inequalities~~^{inequities} would prove to be a major political liability.

June 13, 1939.

OLD AGE SECURITY

1. The economic basis of the old age insurance program is unsound. It is operating as a gigantic saving device at a time when there is a surfeit of saving; it is decreasing consumption when we have inadequate consumer buying power. It would be appropriate to a capital-poor country where a curtailment of consumption was necessary in order to divert more resources into the making of plant and equipment. It has no possible economic justification, however, in our capital-rich, consumption-poor economy.

2. The old age insurance program is nullifying the recovery efforts of the Administration. By the end of this year nearly \$2 billion accumulated in the Fund will have been withdrawn from consumption. Hence, the effect of nearly \$2 billion of deficit spending will have been completely offset. Even under pending amendments another one-half billion dollars will be added to the Fund in 1940.

3. Our chronic difficulty since 1929 has been under-consumption. The stimulation of consumption through WPA is waning in popularity. The field of old age pensions offers the most feasible avenue for increasing consumption relative to income. We have closed this avenue and our old age program is intensifying rather than easing our basic problem.

4. Payroll taxes in England amount only to 60 percent of old age pensions, the remainder being financed out of general revenues. Through the stimulation of consumption, England has been able to sustain a high level of activity with less capital expenditures than formerly.

5. The existing and pending old age insurance program is politically vulnerable. The Federal Government is collecting heavy taxes for old age security and its only disbursements have been through the separate state assistance systems. The real demand in this country is for old age pensions for the existing aged population, rather than for old age insurance for the people in certain occupations. A contributory system will never be allowed to develop unless the aged and the people in uncovered occupations, including agriculture, are adequately cared for.

6. The proposed postponement of the tax increase will merely prevent the situation from getting worse. The proposed benefit amendments will add a negligible amount to buying power next year and will prove to be a political liability of major proportions. They are unbelievably complicated and in operation will make the old age insurance program terrifically unpopular. They will merely result in payments to a relatively few people who can qualify on more or less arbitrary and accidental grounds. To those who can qualify, the payments will in many cases be hundreds and even thousands of times in excess of taxes paid. Others will have paid taxes but, for various reasons, which will appear completely arbitrary to the individuals concerned, they will not qualify. It is a conservative estimate that during the next few years not less than 50 to 100 thousand persons who pay taxes will be disqualified each year from receiving benefits by certain arbitrary provisions. These exclusions will be concentrated on the groups least able to bear them, such as

employees in the low wage areas of the South, in regions of heavy unemployment, and in areas where the character of the industries is such that rates of sickness and disability are above normal. Every Congressman will have in his district substantial numbers of persons or survivors, or dependents of persons who have received more wages and paid more taxes than some persons or survivors who have received benefits but find themselves nevertheless disqualified. In other words, pending benefit amendments, instead of making the old age insurance program less politically vulnerable, will, by the middle of 1940, make it more vulnerable to attack.

7. The overwhelming demand of the country, particularly among people who are on other measures generally in support of the New Deal, is for a relatively simple national old-age pension program. It is believed that a scheme along this line can be worked out which would enormously broaden the coverage of the existing old age assistance program, would preserve regional differentials in payments, would permit the contributory system to evolve naturally, would contribute enormously to the growth in consumption, and yet would not entail any more federal and state appropriations than are now being made.

8. A national old age pension program is politically feasible. In the Gallup poll reported on February 25, 1939, 94 percent stated that they "believed in Government old age pensions". For pensions of \$40 a month for a single person and \$60 for a couple, 87 percent signified their willingness "to pay a sales tax or an income tax in order to provide such pensions".

In the Gallup poll reported on April 21, 1939, in answer to the question, "Do you think Federal spending should be reduced by 10 percent on old age pensions", 86 percent replied, "No." In the Fortune poll, reported in April 1939, a substantial majority of the people who believed that the President "is essential" approved of larger pensions, whereas a substantial majority of the people who completely disapproved of the President were opposed to larger pensions. By economic groups, 63 percent of the poor favored larger pensions. The Fortune comment on this poll was to the effect that "more liberal pension legislation would apparently be not only popular but politically expedient for the Administration."

9. A national old age pension system is inevitable. The only question is whether it will be provided by the Administration that has actually the interests of the lowest third at heart, or by an Administration merely intent upon vote-getting.

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3. Our chronic difficulty since 1929 has been under-consumption. The stimulation of consumption through WPA is waning in popularity. The field of old age pensions offers the most feasible avenue for increasing consumption relative to income. We have closed this avenue and our old age program is intensifying rather than easing our basic problem.
4. Payroll taxes in England amount only to 60 percent of old age pensions, the remainder being financed out of general revenues. Through the stimulation of consumption, England has been able to sustain a high level of activity with less capital expenditures than formerly.
5. The existing old age insurance program is politically vulnerable. The Federal Government is collecting heavy taxes for old age security and its only disbursements have been through the separate state assistance systems. The real demand in this country is for old age pensions for the existing aged population, rather than for old age insurance for the gainfully employed in certain occupations. A contributory system will never be allowed to develop unless the aged and the people in uncovered occupations, including agriculture, are adequately cared for.
6. The proposed postponement of the tax increase will merely prevent the situation from getting worse. The proposed benefit amendments will add a negligible amount to buying power next year and will prove to be a political liability of major proportions. The pending benefit amendments are unbelievably complicated, administratively impossible, and in operation will make the old age insurance program terrifically

unpopular. They will merely result in payments to a relatively few people who can qualify on more or less arbitrary and accidental grounds. To those who can qualify, the payments will in many cases be hundreds and even thousands of times in excess of taxes paid. Others will have paid taxes but, for various reasons, which will appear completely arbitrary to the individuals concerned, they will not qualify. It is a conservative estimate that during the next few years not less than 50 to 100 thousand persons who pay taxes will be disqualified each year from receiving benefits by certain arbitrary provisions. These exclusions will be concentrated on the groups least able to bear them, such as employees in the low wage areas of the South, in regions of heavy unemployment, and in areas where the character of the industries is such that rates of sickness and disability are above normal. Over half the women in covered occupations will pay taxes and yet will not be able to qualify for benefits. Every Congressman will have in his district substantial numbers of persons or survivors, or dependents of persons who have received more wages and paid more taxes than some persons or survivors who have received benefits but find themselves nevertheless disqualified. In other words, pending benefit amendments, instead of making the old age insurance program less politically vulnerable, will, by the middle of 1940, make it more vulnerable to attack.

7. The overwhelming demand of the country, particularly among people who are on other measures generally in support of the New Deal, is for a relatively simple national old-age pension program. It is believed that a scheme along this line can be worked out which would greatly broaden the coverage of the existing old age assistance program, would preserve regional differentials in payments, would permit the contributory system to evolve naturally, would contribute enormously to the growth in consumption, and yet would not entail any more federal and state appropriations than are now being made.

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