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FREEZING THE CONTRIBUTION RATES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AT 1 PERCENT FOR 1944

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BEFORE THE

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THURSDAY, OCTOBER 14, 1943

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10:30 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman), presiding.

Present: Senators George (chairman), Walsh, Bailey, Gerry, Guffey, Vandenberg, Davis, Danaher, Taft, Thomas, Butler, and Millikin.

The CHAIRMAN. The committee will please come to order. All right, Doctor.

STATEMENT OF ARTHUR J. ALTMEYER, CHAIRMAN, SOCIAL SECURITY BOARD

The CHAIRMAN. The commitee will hear you first on primarily the question that relates itself to the further freezing of the automatic increase in the Social Security Act.

Mr. ALTMEYER. I have a statement here that will take a half an hour, but I think it will save time if I read it, because the subject is pretty complicated.

The CHAIRMAN. You go right ahead, Doctor.

Senator VANDENBERG. You would rather finish your statement before we inquire into anything that you are discussing, I assume.

Mr. ALTMEYER. Yes; I think it would save time.

The question which I understand the committee wishes to discuss——

Senator MILLIKIN. Mr. Chairman, might we have the witness identify himself?

The CHAIRMAN. Yes.

Mr. ALTMEYER. My name is Arthur J. Altmeyer. Chairman of the Social Security Board.

The question which I understand the committee wishes to discuss today is whether the increase from 1 percent on employers and employees, respectively, to 2 percent each, scheduled for next year in the contribution rates of the Federal old-age and survivors insurance program is justified. A comprehensive review of the existing social security legislation and the factors which have led up to the present situation will show, I hope, that such an increase is desirable from the standpoint of the insurance program. I shall limit my discussion solely to the desirability of the scheduled increase in relation to the social insurance system, although I believe there are additional good reasons which arise out of the present financial status of the insured contributors and the Government during this wartime period.

I should also like to make it clear at the outset that in presenting my reasons today for the scheduled increase I do not propose to discuss the question as to whether the insurance program should be operated on "full" reserve basis or on a pay-as-you-go basis, or on some modified basis with a contingency reserve involved. While the Congress did not make a final and explicit determination in the 1939 law with respect to the question of long-run financing, this is a matter for the Congress to decide in relation to the coverage and benefit structure of the insurance program.

Should the Congress finally decide that a limited coverage insurance system, such as the present system is, should be self-sustaining without any contribution from the Government out of general taxes, it will be necessary eventually to obtain additional contributions from employees and employers in order to make up the difference between the one percent which is now being collected and the contribution rate which must be levied under a self-sustaining system.

Senator TAFT. Mr. Altmeyer, as I understand it, even though the present scheduled rate of increase were in effect you would come to a time when you would have a large Government contribution.

Mr. ALTMEYER. No, sir, that is not certain. I think the chances are rather good, if the present scheduled rate of increase took place, that the system would be self-sustaining for all time to come.

Senator TAFT. I speak from memory, but I was under the impression that there would be a large Government contribution to be made in any event. I am quite certain that was the original report.

Senator VANDENBERG. I suggest to the Senator from Ohio that Dr. Altmeyer requested that he conclude the statement first, before any questions got to him.

Senator TAFT. That question was just an incidental one.

Mr. ALTMEYER. On the other hand, if the Congress should eventually decide that Government contributions out of general taxes should be made to the insurance system, the more contributions which the Government now collects from employees and their employers the smaller need be the ultimate subsidy. The Social Security Board has recommended that the insurance system should be eventually financed, in part, from sources other than pay-roll taxes. However, the Board believes this contribution from other sources can be and should be deferred until the mounting annual cost reaches a high level expressed as a percentage of pay-roll, and that in the meantime the scheduled increases in pay-roll contributions should be permitted to become effective.

I should also like to say that while certain arguments by analogy with private insurance can be made in support of the scheduled tax increase, I do not intend to discuss these today, since such discussion opens up the debatable question of the similarity and contrast between private and social insurance.

In passing it may be noted, however, that already the total liability which has accrued for the payment of insurance benefits is several times in excess of the amount in the existing trust fund.

Under certain assumptions the level annual cost has been estimated to be 7 percent of pay rolls. On this basis there would now exist a deficit of nearly $13,500,000. Oother assumptions would yield a lower level annual cost estimate. However, none of the actuarial estimates which have been made on the basis of present economic conditions and other factors now clearly discernible result in a level annual cost of the insurance system of less than 4 percent of pay roll. On the basis of 4 percent level annual cost it may be said that the fund already has a deficit of about $5,400,000.

My own personal opinion at the present time, after considerable study of the many unknown factors which must now be used in any long-run actuarial estimates, is that the level premium cost of the present insurance system is likely to be in the neighborhood of 5½ to 6 percent of pay roll. Thus, instead of the present reserve fund being too large, the fund is small when tested on the basis which any private insurance company would be compelled to use. While social insurance cannot be judged by a too rigorous application of private insurance concepts, nevertheless, this comparison indicates that the existing trust fund is not unduly large in view of its liabilities.

Finally, I do not intend to discuss the broad economic aspects of financing the old-age and survivors insurance system. While we must frankly recognize that the goods and services purchased by insurance benefits at any given time are paid out of the national income produced by the generation then engaged in productive work, we should not conclude that the methods followed in financing social insurance benefits are of no significance in enabling the Government to meet its future social insurance obligations. Just as we recognize that although the costs of the war are being met now by all of us through inability to purchase goods and services, we nevertheless realize that it is important how we allocate the money cost to particular individuals and to the Nation as a whole over a period of time through taxation and the redemption of war bonds later on.

In other words, we recognize that the question of financing any governmental disbursement also involves the question of the Government's financial ability to meet all its costs at any particular time and the impact of such costs on individuals.

In the last analysis, the ability of the Government to meet its costs rests upon the financial integrity of the Government, its over-all financial burden, and the over-all tax system used to meet its burden. Whatever may be the differing views on these matters, I believe it is fair to say that the scheduled increase in the old-age and survivors insurance taxes would result in helping both the Government and the social insurance contributors to be in a better position to meet their long-run obligations.

THE 1935 LAW

As you know, the Social Security Act became law on August 14, 1935, after many months of careful deliberation by the Congress. It incorporates a twofold approach to the problem of old-age security: Noncontributory old-age assistance, payable on the basis of a determination of need, and contributory old-age retirement insurance, based on wages earned in insured employment.

The Federal old-age insurance law first came into operation on January 1, 1937, when contributions became payable from employers and employees at a rate of 1 percent on each. This same rate of contribution is still in effect today. The law at that time, however, provided that monthly old-age retirement benefits would not become payable until January 1, 1942—that is, after an individual had contributed at least 5 years to the insurance system.

AMENDMENTS OF 1939

In 1939, Congress made a number of significant changes in the old-age retirement insurance program, most of them along the lines recommended by an advisory council on social security and the Social Security Board. The advisory council was created in May 1937 by the Senate Committee on Finance and the Social Security Board. The most important changes were as follows:

1. The old-age insurance system was expanded to furnish protection for widows, orphans, and the dependent parents of insured workers who die prematurely. This is a logical and necessary part of any contributory insurance system, since many contributors die before reaching retirement.
2. Monthly benefits became payable in 1940 instead of 1942, as provided in the original law.
3. The entire system was shifted from individual protection to family protection. In addition to the monthly survivorship benefits, provision was made that an insured wage earner who retires would receive an additional benefit of 50 percent when his wife also reaches the age of 65.
4. This is of more immediate interest to the committee. The step-up from 1 percent to 1½ percent in the contribution rate, which in the 1935 act, scheduled for January 1, 1940, was eliminated contrary to the recommendation of the Social Security Board and the Advisory Council.

THE PRESENT OLD-AGE AND SURVIVORS INSURANCE LAW

The old-age and survivors insurance program is the only one of the social-security programs administered entirely by the Federal Government. Contributions are collected from the worker and his employer through the Bureau of Internal Revenue of the Treasury Department. The Social Security Board administers the benefits through the Bureau of Old-Age and Survivors Insurance.

The various monthly benefits payable under the law range between a minimum of $10 per month to a maximum of $85 per month. The amount paid to each individual depends upon the amount of wages the insured worker received in covered employment since the insurance plan first became effective and the length of time such person was in the insurance system. The lump-sum benefits which are paid may range from a minimum of $60 to $300 or more.

At the present time about 750,000 individuals are drawing monthly insurance benefits. In addition, lump-sum death payments are being made with respect to 10,000 deceased workers each month.

I should perhaps say on behalf of 10,000 deceased workers each month. The rate of disbursements for these various insurance benefits now averages $14,000,000 per month.

At the present time the contributions are 1 percent on the wages of the employees and 1 percent on the employers' pay roll, making 2 percent in all. These rates are scheduled to increase to 2 percent each in 1944 and 1945, or a total of 4 percent; and to 2½ percent each, or a total of 5 percent, during 1946, 1947, and 1948; and to 3 percent each, or a total of 6 percent, in 1949 and thereafter. These increases are already provided in existing law.

The revenue received comes into the Federal Treasury, and an amount equivalent to the contributions received is automatically deposited in the Federal old-age and survivors insurance trust fund. A board of trustees supervises the trust fund. The three members of the board of trustees are the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board.

Employers sent their contributions and the contributions which they have collected from their workers to the Collector of Internal Revenue every 3 months, on quarterly reports, listing the name, social-security account number, and wages of each individual employed by the employer during the particular quarterly period. These records are sent by the Treasury Department to the Social Security Board offices in Baltimore, Md., where the records are kept for each individual under the supervision of the Bureau of Old-Age and Survivors Insurance through a method of mechanical bookkeeping.

Contributions are collected and benefits are payable on the basis of employment covered by the insurance system. During 1942 over 45,000,000 individuals had wages covered under the insurance system and during 1943 it is estimated that the number will reach 43,000,000 for the year even though self-employed businessmen and farmers, agricultural labor, domestic servants, employees of nonprofit institutions, Federal, State, and local governmental employees, and certain other groups are excluded from the system at the present time.

FINANCIAL OPERATION OF THE PRESENT LAW

Contributions collected for old-age and survivors insurance during the fiscal year 1943 totaled 1.1 billion dollars. Expenditures for benefit payments and administration during this period were 176.8 million dollars. Total administrative expenses are equal to 2.5 percent of the premium collected. The total assets of the old-age and survivors insurance trust fund, as of June 30, 1943, represented 4.3 billion dollars, which was invested in Government obligations at an average interest rate of approximately 2.3 percent. A complete statement of the financial aspects of the old-age and survivors insurance system was included in the third annual report of the board of trustees of the Federal old-age and survivors insurance trust fund, which was sent to the Congress in accordance with the requirement in the Social Security Act. Table 3 of this report shows the distribution of the assets of the trust fund at the end of the fiscal year 1942.

Assets of the fund as of the end of the last fiscal year represented an average of about $75 per worker with wage credits under the old-age and survivors insurance system. Total tax collections for this calendar year are estimated at approximately 1.3 billion dollars and total disbursements for benefits and administrative expenses are estimated at about $200,000,000. The additional 1 percent step-up scheduled for next year is estimated to yield 1.4 billion dollars for the calendar year 1944, of which half would come from the employees and the other half from employers.

WARTIME INFLUENCES ON THE TRUST FUND

The contributions now being collected are higher than was originally anticipated at the time the 1939 amendments were enacted. Similarly, the benefit payments are a great deal less than was originally estimated. The marked rise in contributions reflect, of course, the high levels of wartime pay rolls. It may be worth while to mention these factors in somewhat greater detail.

INCREASED EMPLOYMENT, STEADIER WORK, AND HIGHER WAGES

The general availability of work of a steady character and at higher wages has increased earnings in covered employment. As a consequence, the contributions to the trust fund are at a high level. During 1937 the average taxable wage of workers contributing to the insurance system was $900. By 1940 it had risen slightly to $930. In 1941 it was $1,028. In 1942 it was $1,181.

Our estimate for 1943 is about $1,400. In 1937 the total of taxable wages was about $30,000,000,000. In 1942 it was $53,000,000,000, and in 1943 it will be well over $65,000,000,000, or more than twice the amount in the first year.

These increases also result in higher wage credits accumulating which will increase future monthly benefits payable at death or retirement. Therefore, while this situation results in an abnormal upturn in contributions during this period, there is a more or less offsetting liability created for settlement over many years in the future when more and larger benefits will become due.

DEFERRED RETIREMENTS AND SUSPENSIONS OF BENEFITS

With the need for maximum use of available manpower many individuals above the age of 65 who are already eligible for retirement benefits have remained on the job or returned to work and thereby deferred or interrupted their retirement.

Since monthly benefits are not payable for months in which an individual is working in covered employment and to the extent that these deferments and suspensions exceed those which, except for the war, would have taken place, there is an obvious increase in the assets of the fund.

At the present time there are between 500,000 and 600,000 wage earners 65 years of age and over who are eligible to old-age insurance benefits but who are still working and who are, therefore, not drawing their old-age insurance benefits. However, the benefits to be paid to those who have deferred retirement to a later age than otherwise will be greater in amount by reason of being determined, partly at least, on the currently high wage levels. Nevertheless, it is true the net result of the factors mentioned will be an increase to the fund.

I now summarize the major reasons why it would be unwise in the opinion of the Social Security Board to defer the increase in the contribution rates now scheduled to take effect on January 1, 1944. They may be stated as follows:

1. The chief reason why a graduated schedule of contribution rates was incorporated in the 1935 Social Security Act was to permit the ultimate contribution rates of the program to become effective gradually and thereby give employees, employers, and the economy generally an opportunity to become adjusted to the changes.

In 1939 the law was amended to postpone a step-up in the contribution rate from January 1, 1940, to January 1, 1943. Last year the law was again amended to postpone a step-up in the contribution rate to January 1, 1944. These several changes do have the effect of substituting uncertainty for certainly which should be an essential characteristic of a system of social insurance.

Today employment, wages, and the national income are at record levels—at levels far in excess of anything experienced in the past. If we depart once again from the original schedule of contributions, at a time when ability to make these contributions is at a maximum, we increase the uncertainty as to when the next step-up in contribution rates will occur.

2. As I indicated earlier, the average annual cost of the present insurance system based upon existing economic conditions and other factors now clearly discernible results in a rate of not less than 4 percent of pay roll; and some of our actuarial estimates yield a level premium cost in the neighborhood of 7 percent of pay roll. We are now engaged in making revisions in our actuarial estimates based upon information which has become available from the first few years of operation of the law, the 1940 census, and changes due to the war.

There are numerous factors which must be given consideration in the actuarial cost analyses of the old-age and survivors insurance system. Among the most important are (1) mortality; (2) population progress dependent upon births, deaths, emigration, and immigration; (3) family composition; (4) employment; (5) income level; (6) length of the productive period; (7) length of the period of dependent childhood; (8) length of the period of retirement; (9) invalidity; (10) interest rates; (11) migration between covered and uncovered employment; (12) the war.

The cost factors cited can pyramid strikingly. Persons could go to work early, stay at work late in life, might avoid any serious periods of unemployment, might have small families, and might live under mortality conditions no better than the present. On the other hand, the period of preparation for employment could be lengthened, the period of retirement could be lengthened, the interruptions of work might be frequent and serious, mortality might improve so as to lengthen the life of the pensioners, families might be larger so as to increase family benefits in case of the death of the worker, and so forth. Also the proportion of workers by sex can shift and, viewing the past, considerable change is likely in wage income. Administrative determinations as to benefit qualification can add a certain amount of ultimate costs—so can legal decisions as to specific definitions and rights.

While it is impossible, because of the reasons cited, to reach absolutely final conclusions as to future costs, all actuarial calculations indicate a steeply increasing annual cost, because of the growing proportion of the aged in our population, the growing number of aged persons who will become entitled to benefits, and the increasing amount of benefits per person due to the fact that benefits are related to the length of time a person has been insured. This steep increase in the future benefit costs will result in eventual annual disbursements 15 to 20 times the present annual disbursements.

3. As I have pointed out, the contribution rates scheduled for 1944 in the existing law, together with interest receipts to the trust fund, are probably inadequate to meet the benefit payments provided in the existing law, and the administrative expenses of the program, depending upon developments which cannot be foreseen with confidence.

Any reduction in the scheduled contribution rates would lessen what would otherwise be the size of the fund, and hence, would reduce the future interest income of the fund. This would increase the likelihood of an eventual deficit or would hasten and increase the size of such a deficit. No doubt the existing law would be amended before an actual deficit developed.

At such time an increase in contribution rates or a reduction in the scope or level of benefits, or a Federal subsidy, or some combination of the three, would become necessary. A reduction in the tax rates scheduled to apply in 1944 would be a step toward such an eventual situation.

While no immediate difficulties are apparent in the financing of the insurance system the fact that the Congress did not explicitly provide in the law what should be done in case present contributions are inadequate in the long run makes it impossible to determine the financial policy under which we are operating.

Until the Congress is able to make a more definite commitment on the financial policy of the insurance system, it seems unwise to continue to levy contributions which meet only a small part of the long-run cost.

4. A consideration of the legislative history of the provisions of the existing law concerning the reports which the board of trustees of the trust fund is required to make to Congress supports the view that the scheduled tax rates for the year 1944 should not be reduced. It is true that the existing law requires the board of trustees to report to Congress whenever the board is of the opinion—

> that during the ensuing 5 fiscal years the trust fund will exceed three times the highest annual expenditures anticipated during that 5-fiscal-year period.

However, the law does not require Congress to take any action upon the receipt of such a report, nor does it suggest that the three-time rule is the sole indicator of the proper size of the reserve. Indeed, this provision, I believe, was written into the law with the thought that it would be meaningful only with respect to the reserve when the benefit load has reached a considerable degree of stability and not for the early years.

5. The great increase in contribution income, due to the war, is readily apparent, but the extent of the drain on the trust fund, which will occur when economic activity slackens, is frequently overlooked. Since no one can tell when the war will end, prudent management of the insurance system should allow for the possibility that economic activity may decrease sharply within the years following the war.

If a sharp decrease in employment does occur a large proportion of the recipients will elect to receive their benefits. A decline in economic activity would, therefore, increase benefit disbursements and at the same time reduce pay rolls and tax income. If we recognize that it is possible that during the post-war period, there may be a long-continued period of high disbursements and low income, the trust fund at the end of that time may be less than what would be desirable in view of the long-run increase in costs.

6. The unusually high level of tax receipts under the old-age and survivors insurance program during the past year or so should not be thought of as constituting a clear gain to the trust fund. The wages which give rise to the increased current receipts will also, in the future, serve to qualify many individuals for benefits who would not otherwise receive them and will increase the potential benefit amounts payable to other individuals.

In other words, the increased present income to the fund means increased future disbursements from the fund. A reduction in the scheduled tax rates of the program because of wartime fluctuations in the amount of taxable wages under the program would seem to be unsound in the light of the increasing liabilities.

7. In the early years of the operation of the old-age and survivors insurance system the actuarial value of the benefits provided is very many times the value of the individual worker's contribution.

For example, a single individual who contributes for 10 years to the system and at the maximum salary taxable under the law ($250 per month) might have obtained from a commercial insurance company an annuity of $2 per month with his own contributions; whereas, this law entitles him to a benefit of $44 per month—or 22 times the amount purchasable from an insurance company of his own contributions (S. Rept. No. 734, 76th Cong., p. 16). A married man might be entitled to $66 per month or 33 times the value of his own contributions.

Hundreds of thousands of aged persons are now working in war industries at good wages. At the present rate the insurance contributions which they will pay during the entire war will be returned to them completely in the first month or two that they draw benefits when they retire after the war. Moreover, the actuarial value of the survivorship benefits alone is equivalent to a 1 percent contribution. The present value of these survivors' benefits at the date of death (corresponding to the face amount of life insurance) is between $3,000 to $10,000 for most families (and as high as $15,000 for some families).

Therefore, equity to the contributors who do not receive benefits until after many years indicates that the contribution rates should be increased.

8. In addition to the equity of levying contributions at the 2 percent rates, it is desirable to increase the rate to 2 percent in order to convey to the contributors a better appreciation of the value and the cost of their insurance protection. The continuation of the present 1 percent rate tends to depreciate the cost and the protection afforded in the minds of employees, employers and the public generally.

As I have pointed out, the real value and cost of the insurance benefits provided are substantially in excess of the rate of contributions now being collected. Yet I believe it is fair to say that at the present time there is not a sufficient recognition on the part of the contributors of the real value and cost of the protection that is being afforded. I wonder how many people realize, for example, that the 1939 amendments resulted in the Government underwriting life insurance having a face value of $50,000,000,000. That $50,000,000,000 added to the $90,C00 0)0,000 for veterans' life insurance is greater than all the private life insurance written today. I know of no better way to bring home both the value of the benefits and the fact that these benefits will cost very substantial sums than to put something like the true price on the product.

In the history of social insurance throughout the world the major difficulty of social insurance systems has been the lack of adequate financing of old-age retirement benefits. It is always easiest to delay levying the necessary insurance contributions, thus perpetuating and strengthening the belief that the insurance benefits are meager and the costs of the insurance system is low. Inevitably, when the time comes to increase the taxes, many reasons can always be advanced as to why the imposition of the additional taxes is unwise or impossible.

In this country we are still in a position to avoid these mistakes by getting clearly established now that if our people want social insurance they must be willing to pay for it. The time to obtain the necessary contributions is when people are able to pay for it and are willing to pay for it because they can be shown that they are getting their money's worth.

If we should let a situation develop whereby it eventually becomes necessary to charge future beneficiaries rates in excess of the actuarial cost of the protection afforded them, we would be guilty of gross inequity and gross financial mismanagement, bound to imperil our social insurance system. Social insurance financing is admittedly a difficult and complex problem. However, we are all of one mind in wanting to make social security secure, and I am confident we can and will provide the necessary ways and means of doing so.

Senator VANDENBERG. Dr. Altmeyer, you state on the first page of your brief that you do not propose to discuss the fundamental nature of this old-age insurance system under which we are operating—that is, as to whether it is to be on a full reserve or pay-as-you-go or on a level-premium basis—and yet your entire argument throughout your very excellent and persuasive statement is constantly based on assumptions that we are seeking to approach a level-premium basis. You are constantly making comparisons in respect to the actuarial cost of this insurance, and yet, as a matter of fact, there is not anyone in the Social Security Board or anyone else that ever contemplates putting this on a so-called level-premium basis.

Mr. ALTMEYER. I give you the level-premium estimate to emphasize that in the financing of this we must be certain that we are providing not only for today but for all time to come the necessary income, whether it is by way of pay-roll taxes or by way of other taxes.

If we do not do so, the steeply increasing cost in the future will get us into difficulty.

Senator VANDENBERG. I agree with you completely on that.

Mr. ALTMEYER. The annual cost, what I call the level annual cost or a level premium is the rate that would have to be charged from the beginning of the system indefinitely, if you wanted to make it a self-sustaining system, without income from any other source than pay-roll taxes.

Senator VANDENBERG. I fully understand that point.

Mr. ALTMEYER. I did not mean to say that is what Congress might decide to do. Congress may decide to provide other income, but it has not decided to do that yet.

Senator VANDENBERG. I do not see how it is possible to decide the pending question until you first discuss what kind of reserve it is that you are accumulating. Even the reserve you would accumulate if all of the statutory pay-roll taxes increased according to program, that would not produce a reserve to achieve the total financial responsibility that you are talking about, would it?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. I do not see how it is possible.

Mr. ALTMEYER. Because in 1939 what Congress did was to start benefits sooner and in larger amount but it adjusted the formula so that the annual cost in future years would be much less than under the original law. In other words, under the insurance system you have a very steeply increasing cost, because of the small number of beneficiaries at the beginning of the system and the large number at the end.

What you did in 1939 was to tilt that teeter-totter to make a much less steep increase in the annual cost in the future. As I said in answer to Senator Taft's question, I think it is perfectly possible that if you permit the present scheduled rates to go into effect, you will have a self-sustaining system for all time to come.

Senator VANDENBERG. Regardless of that point, which I think is highly controversial, is it not also a fact that in 1939 the implication of the congressional action was to change the character of the reserve from a full reserve basis to a contingent reserve basis?

Mr. ALTMEYER. I really do not know what the congressional intention was.

Senator VANDENBERG. Was that not the net result of it?

Mr. ALTMEYER. We never were on a full reserve basis.

Senator VANDENBERG. That is exactly what I was trying to say in the first place.

Mr. ALTMEYER. I cannot see how you can change from something you never were on.

Senator VANDENBERG. But you were on a basis which looked in the direction of a full reserve because, as you repeatedly said, but disagreeing with Senator Taft and myself, you think this is going to be a self-sustaining system on the basis of the taxes contemplated in the statute, which would be a full reserve, so far as the net result is concerned.

Mr. ALTMEYER. No.

Senator VANDENBERG. The net result is that, is it not?

Mr. ALTMEYER. No, because it could not turn over the assets to a private insurance company and let that private insurance company take care of all future liabilities, because the assets would not be sufficient for that.

Senator VANDENBERG. Let us get out of the metaphysical thing and get down to figures, because they tell us the story. Certainly in 1939, when Congress consciously and deliberately stopped the contemplated statutory increase in pay-roll taxes and asserted, for whatever it was worth, that the correct reserve rule was a reserve three times the anticipated highest drain in the subsequent 5 years, certainly it was doing something to the reserve principle involved. Now, what do you think it was doing?

Mr. ALTMEYER. I think it was admonishing the board of trustees. The Congress wanted to take a look at the growing size of the reserve from time to time; and in order to make certain that the trustees would call the matter to the attention of the Congress you inserted that three-times rule. I am not clear, Senator, whether you feel that the 1939 amendments took us off of a self-sustaining system and put us on a non-selfsustaining system.

Senator VANDENBERG. It is my opinion that the 1939 amendment practically recognized the fact that a public-supported, tax-supported insurance system had to rely inevitably upon public contributions.

Mr. ALTMEYER. I did not understand it that way. I called the matter to the attention of the Ways and Means Committee and asked them as to whether they desired to make a commitment for the future. I do not recall whether I called the matter specifically to the attention of this committee but, nevertheless, Congress did not in the law, and it does not appear in any of the proceedings, indicate that the committees intended to make a commitment for the future as regards whether this system would be financed solely out of pay-roll taxes or would be subsidized from other sources.

Senator TAFT. Did not the Secretary of the Treasury make some statement to that effect?

Mr. ALTMEYER. He testified on the size of the reserve and this rule that Senator Vandenberg mentioned.

Senator VANDENBERG. He asserted, did he not, directly that this was a correct rule to govern reserve?

Mr. ALTMEYER. He said, as I recall, that it was a rule that should be applied when we had a degree of stability and sufficient information. I do not think he said it was a rule that should be applied in the early years of the system.

Senator VANDENBERG. In any event, that is the only rule that there is, or any approximation of a rule, that Congress has set down to define the appropriate size of the reserve, is it not?

Mr. ALTMEYER. That is right.

Senator VANDENBERG. That is the only rule, at any rate, that we have got. Regardless of whether it is a good rule or not, let us see where we stand under that rule. I am sure you will have the figures available. Will you tell me what the net reserve was on June 30, 1943?

Mr. ALTMEYER. Approximately $4,300,000,000.

Senator VANDENBERG. Now, the next 5 ensuing years would carry you up to 1949.

Mr. ALTMEYER. Would carry you to June 30, 1948.

Senator VANDENBERG. That is right; up to 1948.

Mr. ALTMEYER. Yes.

Senator VANDENBERG. What is the highest contemplated annual benefit payment during these 5 ensuing years?

Mr. ALTMEYER. The trustees' report, table 4, gives three alternative estimates based upon three different assumptions:

I. Increasingly high level of employment and pay-rolls throughout the period; low rate for retirement among aged.

II. High level of employment and pay rolls, including a short period of moderate decline; medium rate of retirment among aged.

III. Medium level of employment and pay rolls, including a period of moderately severe decline; high rate of retirement among aged.

The total benefits, the highest total benefits in any year through fiscal year 1947, plus administrative expenses (which must also be paid out of the fund) range from $415,000,000 under the first assumption to $813,000,000 under the third assumption.

Senator TAFT. You are reading from the report of the board of trustees of the Federal old-age and survivors insurance for the year ending July 1, 1942, is that correct?

Mr. ALTMEYER. I did not get your question.

Senator TAFT. For the year ending July 1, 1942.

Mr. ALTMEYER. What was the question?

Senator TAFT. You are reading from that report?

Mr. ALTMEYER. Yes.

Senator TAFT. Has that report been printed?

Mr. ALTMEYER. It was filed in typewritten form with the Congress. Because of limitations on the printing of reports it has never been printed.

Senator TAFT. Mr. Chairman, I think that report ought to be made a part of this record. It contains more information than anything I have seen.

There is no report for the year ending July 1, 1943, yet?

Mr. ALTMEYER. No, sir. We are just in the process of preparing that.

Senator TAFT. Mr. Chairman, may that report be made part of the record?

The CHAIRMAN. What is the nature of it?

Mr. ALTMEYER. It is the board of trustees' report. It consists of 30 typewritten pages, with certain charts and tables.

Senator TAFT. Possibly it can be printed by the Senate in a separate document.

The CHAIRMAN. It has not been printed?

Mr. ALTMEYER. No, sir.

The CHAIRMAN. We will make a committee print of it, Senator Taft, and let it accompany this report.

Senator TAFT. That will be entirely satisfactory.

Senator VANDENBERG. As I understand the figures you have just given me, as of 1943 the highest possible contemplated benefit liability would be $813,000,000, is that correct?

Mr. ALTMEYER. Somebody interrupted me. I did not get your question.

Senator VANDENBERG. As I understand the figures you have just given me, as of June 30, 1943, the highest contemplated benefit payment and administrative expenses in the 5 ensuing years would be $813,000,000.

Mr. ALTMEYER. That is according to the trustees' report. The magnitudes are approximate.

Senator VANDENBERG. That makes no difference. The lowest estimate for the same period is $415,000,000?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. So under what we will call for easy identification the 3-5 rule, there would be a reserve as of June 30, 1943, of nearly 10 times the lowest anticipated estimate, and it would be about 5½ times the highest possible estimate that your figures indicate?

Mr. ALTMEYER. That is right.

Senator VANDENBERG. All right. Now, can we jump down to the end of this 5-year period? The last of this period would be between what dates?

Mr. ALTMEYER. That would be up to July 30, 1947.

Senator VANDENBERG. Now, if you have the statutory increased pay-roll tax without any further interruption, what do you estimate your reserve will be in 1948?

Mr. ALTMEYER. It might be as high as $14,600,000,000 and as low as $11,350,000,000, as of June 30, 1947.

Senator VANDENBERG. What would be the percentage relationship between that reserve, then, and the highest contemplated drain on the fund, the highest of the 5 following ensuing years?

Mr. ALTMEYER. We haven't got any figures on the 5 following ensuing years. Do you want me to estimate in terms of the highest during the period 1943–47, inclusive?

Senator VANDENBERG. All right. I thought the other would be a little fairer to you.

Mr. ALTMEYER. Yes, it is fairer.

Senator VANDENBERG. I want to be fair to you in the whole thing.

Senator TAFT. May I suggest in your report the estimated annual payment in the period, which is from 1951 to 1955, is $1,600,000,000 in one case and $1,300,000,000 in the other.

Mr. ALTMEYER. What page is that?

Senator TAFT. That is on page 16 of your report, in the copy I have.

Senator VANDENBERG. That is what I have, Senator.

Senator TAFT. 1951 to 1955.

Mr. ALTMEYER. It is an average.

Senator TAFT. It is the table right near the end, almost the end of your report, way down next to the last page.

Mr. ALTMEYER. That is the average only. We haven't got any annual figures. We haven't made any annual estimates beyond January 1, 1948.

Senator VANDENBERG. Then let us go back to the current 5-year period.

Senator TAFT. Under this estimate is it not true that the highest during that period, 1951 to 1955, is $1,600,000,000, which would approximately answer Senator Vandenberg's question?

Mr. ALTMEYER. It is an average. It is the midpoint between the low and high of that period.

Senator TAFT. Yes, but 5 years from 1948 is 1953, which is also a midpoint. So it is a fair estimate.

Mr. ALTMEYER. Yes.

Senator VANDENBERG. Going back, then, to the 5-year period that we were examining, the current 5-year period, a $14,600,000,000 reserve on January 1, 1948, would be about 18 times, would it not, the highest possible estimated drain on the social security funds during that 5-year period?

Mr. ALTMEYER. That is right.

Senator VANDENBERG. And as compared to the lower estimate it would be nearly 30 times?

Mr. ALTMEYER. That is right.

Senator VANDENBERG. Now, suppose you leave the pay-roll tax exactly where it is for the next year, what would your reserve be on January 1, 1945, leaving the pay-roll tax at 1 percent, as it now is?

Mr. ALTMEYER. I have a figure here, Senator, that may serve your purpose. At the end of the calendar year 1946, if you leave the 2 percent rate in effect, we estimate the reserve would be approximately $8,500,000,000.

Senator VANDENBERG. That is at the end of the year 1946. That takes us up to January 1, 1947.

Mr. ALTMEYER. That is right.

Senator VANDENBERG. So if you leave the pay-roll tax where it is during that period, you would have a reserve of $8,500,000,000, which again is 10 times the highest estimated cost of the system during that 5-year period.

Mr. ALTMEYER. That is right.

The CHAIRMAN. Doctor, what has been the rate of increase in the reserve during the last year? You have now about $4,300,000,000 as of June 30, I believe.

Mr. ALTMEYER. At the end of the calendar year we had a reserve of $3,700,000,000, approximately, and we estimate that at the end of this calendar year it will be approximately $4,850,000,000. It is going to be at the rate of a little over a billion dollars a year. If you step up the rate it would mean an increase of a little over $1,400,000,000 for 1944.

The CHAIRMAN. At present rates?

Mr. ALTMEYER. At present rates the progression has been something less. At the end of 1940 it was $2,000,000,000; in 1941, $2,750,000,000; at the end of 1942, $3,700,000,000, and at the end of 1943 it will be $4,850,000,000.

The CHAIRMAN. The rate of increase is something like $600,000,000 or $700,000,000.

Mr. ALTMEYER. It is now something like a billion dollars, because the disbursements have been low, and even this year we estimate only $200,000,000, while the collections are over a billion. So that the net is still over a billion.

Senator VANDENBERG. So your recommendation to the committee against a further freezing of the 1 percent pay-roll tax requires us to totally ignore any validity in the statutory rule that a reserve which is three times the highest anticipated cost during the next 5 years is adequate. We would have to ignore the statutory rule entirely in order to accept your recommendation, would we not?

Mr. ALTMEYER. I do not call it a rule. You haven't put it in as a requirement and certainly I do not think it ought to be a rule applying to these first few years when the factors are so uncertain. I do not think that is good statesmanship, if I may say so.

Senator VANDENBERG. As you know from my correspondence with you this year, I am not prepared to be dogmatic about the rule, because I share all of your anxiety that this fund should be permanently on a sound financial basis. On the other hand, if we have departed from what we will loosely call the full reserve basis of the original years, and if we have consciously come to a point where we are proceeding on a pay-as-you-go basis, which in turn you are entitled to say involves a responsibility on our part to spread the difference in taxes when the time comes, if that has been the decision, and I think that has been the decision, there is no justification that I can see on the basis of the figures for building a current reserve which is so totally out of proportion with the statutory index—let us say it is an index.

Mr. ALTMEYER. I think if you want this three-times rule to be really a binding rule upon the Congress that you ought to amend the law, to give assurance to the beneficiaries that at no time in the future will they be called upon to make contributions in excess of the actuarial value of the benefits they will receive. Otherwise, I think you are doing an inequity to future beneficiaries.

Senator VANDENBERG. I agree with that. If we put that provision in the law, are you willing to stand then on the 3–5 rule?

Mr. ALTMEYER. Plus some implementation of that, some indication of what your source of income will be, to give that assurance to the beneficiaries. Now you have a definite source of income, the pay-roll tax. We can make our calculations and give assurance to future beneficiaries on that basis.

Senator VANDENBERG. But if we go on some other basis where we do not indicate what the future source of income will be, or what Congress will do, what will you say in that case?

Mr. ALTMEYER. If the current costs to beneficiaries go above the current rate of contribution, go above the actuarial value of what the benefits are, then I think we are in a morass of uncertainty.

Senator VANDENBERG. The statutory pay-roll tax rates were fixed in 1935, were they not?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. So that your statutory rates are based upon the 1935 conception of the Social Security Act without any reference to whatever change was made in that conception in 1939. Certainly we made some change in that conception in 1939.

Mr. ALTMEYER. You changed the whole law. As I pointed out, you have a much different law today than you had in 1935, so far as future costs are concerned.

Senator VANDENBERG. And also as far as the consumption of reserves was concerned.

Mr. ALTMEYER. Yes.

Senator VANDENBERG. So you are asking for statutory pay-roll taxes that were altered, without any consideration given to the alteration.

Mr. ALTMEYER. I do not know what Congress had in mind, because it did not carry out any logical commitment.

Senator VANDENBERG. That is probably a very logical analysis of congressional action generally. If you can find in the statute any indication of congressional intent, plus the testimony of the Secretary of the Treasury, it was that during 1939 we were attempting to change the reserve basis to a pay-as-you go system, and we were of the opinion, as expressed in the statute, that a general index, let us say, rather than a rule, that a general, safe index would be the 3–5 rule. Is that not what we did?

Mr. ALTMEYER. You put in this admonishment, and I think it was because you and others were concerned about the eventual size of the reserve being unwieldy and leading perhaps to extravagant benefits.

I do not know what other evils you envisaged. So you said to the board of trustees, "When this fund gets to be a certain size in relationship to benefits in the next 5 years, we want to be advised so we can then decide whether we will permit the present rate to continue, whether we will increase it or not."

I do not think there is any commitment in the law, as far as Congress is concerned, as to what you will do after you get that advice.

Senator VANDENBERG. I agree with you, I do not think there is any commitment, but, on the other hand, I think the obligation falls on us, because it could not be avoided. If you follow the rule we have got to follow it. In any event, does not the question before this committee today come down to the question of whether or not we should tear up the statutory index?

Mr. ALTMEYER. No.

Senator VANDENBERG. And pay no further attention to it?

Mr. ALTMEYER. No, sir.

Senator VANDENBERG. Well, you certainly pay no attention to the index when you recommend that tax increase next January, when you are going to have a reserve under existing taxes that are 10, 15, or 20 times instead of 3 times as high as the necessity for it in the next 5 years.

Mr. ALTMEYER. Next year you may have an entirely different situation which may change all our ideas.

Senator VANDENBERG. Exactly. Haven't you got to settle the pay-roll tax question year by year as the situation requires?

Mr. ALTMEYER. No, no. I say that the validity of the three-times rule may be brought into question. I do not agree at all that you should change from a long-range view of financing to a short-range view of financing on a system of steeply increasing costs such as the old-age and survivors insurance system is. I think if you do, you also ought to decide what the Congress is going to do in the event that the pay-roll contribution rates go above a figure which you cannot justify on the basis of individual equity to the beneficiaries.

Senator VANDENBERG. It is no novelty, is it, for Congress and the Social Security Board to disagree on whether this tax should be frozen?

Mr. ALTMEYER. I do not think we really disagree fundamentally. I think both of us want to be sure that the system is soundly financed and that it is financed for social-security purposes only.

Senaor VANDENBERG. In each year that we have frozen the pay-roll tax you have recommended against it.

Mr. ALTMEYER. That is right. I think you made a mistake.

Senator VANDENBERG. I am sure you do. I am sure you are afraid we are going to make another one.

The CHAIRMAN. Any questions, Senator Walsh?

Senator WALSH. No questions.

The CHAIRMAN. Senator Gerry?

Senator GERRY. No.

The CHAIRMAN. Senator Davis?

Senator DAVIS. No.

The CHAIRMAN. Senator Danaher?

Senator DANAHER. I would like to ask Mr. Altmeyer a question as to whether or not, in his computations with reference to increases, he takes into account any possible expansion of the Social Security Act.

Mr. ALTMEYER. No, sir.

Senator DANAHER. So what you are purporting to do is to set up a claims account now as against which you would justify collections.

Mr. ALTMEYER. That is right.

Senator DANAHER. I have one other question. Have you given any thought to the possibility that many millions of men after 18 months of severance from covered positions will lose their status under social security?

Mr. ALTMEYER. Oh, yes. That is one of the basic factors that enters into the cost estimate.

Senator DANAHER. You had not mentioned it in your prepared statement, and I wondered if you had in mind a recommendation that we take some action here which would prolong coverage, particularly for those who enter war industries or who have gone into the armed services.

Mr. ALTMEYER. I mentioned that the transfer from covered to uncovered employment is a very important factor in estimating cost, because, you see, when you pass out of covered employment, you eventually lose all of your benefit rights. That is true of the men and women who have gone into the armed forces.

We have on a number of occasions said we feel that that situation ought to be corrected, certainly for the persons entering the armed forces, and we think the best correction, of course, for everybody, is to extend the coverage of the system so there is not the possibility of losing the benefit rights by passing from covered to uncovered employment.

Senator DANAHER. I certainly agree that they should be covered.

Now I come to the question as to the basis on which you would cover them and still preserve any relation between your claims account which you have set up, and contributions against it.

Mr. ALTMEYER. You are speaking of servicemen and women now?

Senator DANAHER. Principally. At least for the present purposes, let us confine it to them.

Mr. ALTMEYER. Well, it could easily be done by considering as covered employment service in the armed forces and paying a contribution at a regular rate on that pay roll.

Senator DANAHER. You mean that the Congress should authorize an appropriation which would meet those payments into the insurance fund?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. Did not we take some such step as that, Doctor?

Mr. ALTMEYER. We have not.

Senator DANAHER. No, sir.

Senator TAFT. It has been proposed, however, in a good many of the veterans' plans.

The CHAIRMAN. It was proposed.

Mr. ALTMEYER. You protected the benefit right under the railroad retirement system for persons entering the armed forces.

The CHAIRMAN. That is right, under the Railroad Retirement Act.

Senator DANAHER. Have you in mind, Mr. Altmeyer, a formula by which contributions by the Federal Government to the insurance fund in behalf of those people who pass from a covered status to the armed services can be achieved?

Mr. ALTMEYER. Yes, sir.

Senator DANAHER. What is it?

Mr. ALTMEYER. You can either take an arbitrary figure for their wage, say, $150 a month, and make contribution payment on that basis—that would be very simple—or you could take the rate of wage payment plus allowances (and plus the estimated cost of subsistence if there were not allowances) at the time of discharge, or you could take the average rate of wage of the person inducted into the service prior to the time of induction, if that were higher. There are various bases. All of them should be simple and have to be simple, so that the Army and Navy would not be faced with a big chore of making reports to the old-age and survivors' insurance system. It could be done very simply.

Senator DANAHER. Has your staff prepared any studies on the various methods by which that coverage might be extended?

Mr. ALTMEYER. We are just in the process of finishing a memorandum. Senator Vandenberg wrote me several weeks ago, in fact a couple of months ago, about that matter. I have letters from a number of other Senators and Congressmen.

Senator DANAHER. Would national protection for men, those transferring from covered service into the armed services, require any change in State laws to conform to the over-all program you might recommend?

Mr. ALTMEYER. Not so far as this Federal old-age and survivors' insurance is concerned, but there is another comparable problem in connection with unemployment benefits, too.

Senator DANAHER. That would require a change in State legislation generally, would it not?

Mr. ALTMEYER. No; it would not. I am talking about unemployment.

Senator DANAHER. Yes, that is what I mean.

Mr. ALTMEYER. You have, with the exception of three States, provisions in the various State laws for freezing any accumulated benefit rights. We estimate probably half of the persons who have gone into the service do not have any unemployment benefit rights, because they were unemployed, or just reaching 18 to 19 years of age before they had gone into covered employment, or were farm boys, and so on. Congress could pass a law providing for demobilization benefits contingent upon unemployment. It could have mustering-out benefits of several months and then after that continue demobilization benefits dependent upon continued unemployment. Congress could do that and it would not require any amendment in most of the State laws, because those State laws that have frozen unemployment benefit rights for the most part contain the proviso if Congress makes any provision those benefit rights shall not become applicable, or shall be diminished to the extent that Congress has provided benefits.

Senator DANAHER. Now, one other question and I shall conclude. Have you given thought, also, as to a basis upon which the benefits of social security may be available to those who never were covered?

Mr. ALTMEYER. Yes. You have probably 20,000,000 people at the present time who are in what we call uninsured employment. Many of those have had some insured employment, because you have a great interchange between covered and uncovered employment by a given individual. You could, if you wanted to, cover the 20,000,000 not now covered.

You could provide a formula in the law as regards the method of qualification and as regards the determination of benefits which would not penalize these late entrants into the system. You could provide an alternative formula. That is, you could take the present formula, if that would result in higher benefits, or you could take the other formula, which would be based upon a period since the change became effective, if that resulted in higher benefits.

Senator DANAHER. Would that plan contemplate, also, contribution from the Government by way of appropriation, in order to preserve the integrity of the insurance principle?

Mr. ALTMEYER. I think that if that change took place within the next year or so, the financial burden on the system might well be low enough that the rate contemplated in the law would be sufficient to pay out without an income from other sources.

Senator DANAHER. But the surplus to which Senator Vandenberg has directed your attention would be available for that very purpose, would it not?

Mr. ALTMEYER. Oh, yes.

Senator DANAHER. And would probably be sufficient to absorb anything you can now foresee?

Mr. ALTMEYER. You mean for the newly covered people?

Senator DANAHER. Yes.

Mr. ALTMEYER. I do not know about that. What I said in response to Senator Taft's and Senator Vandenberg's questions was that it might very well be that the present scheduled rate would be sufficient to maintain the system, make it a self-contained system. I was not speaking of the possibility of Congress bringing in 20,000,000 more people and giving them what, in effect, would be past employment rights.

Senator DANAHER. Past employment status?

Mr. ALTMEYER. Yes. We would have to make a calculation as to what that extra cost would be, if any, and whether the margin would be sufficient to cover it.

Senator DANAHER. In any event, the calculation as to the possibility in that respect does not vary your answers to Senator Vandenberg's questions?

Mr. ALTMEYER. No.

Senator DANAHER. With reference to your views as to continuing the provisions of the present law?

Mr. ALTMEYER. That is right.

Senator DANAHER. Thank you.

Senator TAFT. Mr. Altmeyer, at some time you said something to the effect that it might be a tax of 5½ percent would pay benefits even at the height of the system, as far as you could see ahead.

Mr. ALTMEYER. Five and one-half to six percent.

Senator TAFT. Would that be without interest, from the reserve fund?

Mr. ALTMEYER. No; that is figuring an interest at the average rate of 2 percent.

Senator TAFT. From how large a fund, though?

Mr. ALTMEYER. I do not remember exactly what the size of the fund would be.

Senator TAFT. Figuring a fund created by the taxes as they are now written in the law, it would be probably $30,000,000,000 or $40,000,000,000 by that time.

Mr. ALTMEYER. Eventually?

Senator TAFT. Yes, the time we are speaking of, when you would reach 5½ more or less maximum.

Mr. ALTMEYER. Yes.

Senator TAFT. Mr. Altmeyer, the only thing that appeals to me in this question, it seems to me, is whether we shall alter the three-five rule. There are two things in your argument that impressed me. One was the question whether, after all, we are not giving too much of a benefit to the people who are going into retirement during the next 5 years by only charging them 1 percent. Do you think that a 2 percent charge would more nearly, would come anywhere near their actual obligation, or is their actual obligation far beyond anything we could do anyway?

Mr. ALTMEYER. Oh, yes. They would still be getting much more than the actuarial equivalent. The survivors' benefit alone constitute $50,000,000,000 life insurance that you wrote in 1939. That is worth the 1 percent, to say nothing of the old-age retirement benefit, just the death benefit alone.

Senator TAFT. So even if we increased this to 2 percent it would still be a very large present, so to speak, to these people in the older groups?

Mr. ALTMEYER. That is right. I want to make this point: That does not mean that the person retiring in future years is being treated inequitably, because what you are doing is using a larger proportion of the employer's contribution to pay the benefit for what you might call past service. All private retirement systems, practically, provide recognition for past service. The employers realize that is necessary.

Senator TAFT. They make them pay in current payment as they go along.

Mr. ALTMEYER. Yes. We use, under the present system, a larger proportion of employers' contributions to pay these relatively high benefits in relationship to employees' contributions in the earlier years, but not at the expense of employees' retiring in later years.

Senator TAFT. Another suggestion was, 5 years is too short a time. I have a little sympathy with that idea. It seems to me that while it is true that current generations should pay current bills, that maybe a longer period than 5 years—5 years does not cover what you might call the normal cycle of operations. Have you made any calculations on a reserve based on 10 years in the future, or something of that kind?

Mr. ALTMEYER. No; we have not.

Senator TAFT. That is all.

The CHAIRMAN. Are there any questions, Senator Thomas?

Senator THOMAS. No.

The CHAIRMAN. Senator Millikin?

Senator MILLIKIN. No.

The CHAIRMAN. Does any other Senator have any questions to ask?

Senator WALSH. Are you making any recommendations to take in the number of employees who are not now covered and who are in the armed services?

Mr. ALTMEYER. Yes; we have on a number of occasions in our annual reports made that recommendation. We have a detailed report to make on various changes in the Social Security Act.

Senator WALSH. Have you drafted a bill and presented it to Congress?

Mr. ALTMEYER. We have drafted some rough language that the legislative counsel might find useful, but we have always followed a policy of developing our recommendations only in the light of whatever the congressional committee reaction is and have worked with the legislative counsel in developing the necessary language.

Senator WALSH. You are under pressure to have employees who are in the armed services, and other people who are not covered, to come under the law. Have you made any recommendation on that?

Mr. ALTMEYER. Yes; we think they should be covered.

Senator WALSH. Don't you think we should be getting some legislation on that line?

Mr. ALTMEYER. The sooner the better. I think you introduced a bill on that 2 years ago.

Senator WALSH. Yes; and I reintroduced it this year.

Senator DAVIS. As I understand it, the Board now consists of three members, the Social Security Board. What objection would there be to increasing the Board to three representatives of employers, three representatives of labor, and three representatives of the public?

Mr. ALTMEYER. I do not see any advantage in that. I think a nine-member Board would be very unwieldy, and more expensive.

Senator DAVIS. Well, it would be a much larger Board, but would we not get the opinions then of these representatives on that particular Board, the employer, the worker, and the general public, rather than being in the hands of just three people? Would not the judgment of the many be far better than the judgment of the few?

Mr. ALTMEYER. I think the better way is to work through an advisory committee, or an advisory council, representative of employers, employees, and experts, just as you did in 1937. You created an advisory council that joined with the Social Security Board in making recommendations on which the 1939 amendments were based. Those amendments were supported by the members of the advisory council, including representatives of employers, employees, and experts of various kinds. I think that is a better way than to try to have a large representative administrative body.

The CHAIRMAN. Thank you very much.

Senator VANDENBERG. Mr. Chairman, I want to say just this while Dr. Altmeyer is here: While I have appeared to be in rather constant collision with him over the years, I want to publicly express my very great appreciation for the promptness and candor with which he always responds to any questionnaire and any inquiries regarding the great responsibility which he very ably administers.

Mr. ALTMEYER. Thank you very much.

Senator VANDENBERG. Then I should like to ask, Mr. Chairman, that here be included in the record at this point a letter which Dr. Altmeyer wrote me under date of August 27, 1943, which is in the form of a questionnaire, and specifically presents many of these questions with the specific answers.

The CHAIRMAN. You have no objection to that, do you, Doctor?

Mr. ALTMEYER. No, sir.
The CHAIRMAN. Very well, that may be included in the record.
(The letter referred to is as follows:)

FEDERAL SECURITY AGENCY,
SOCIAL SECURITY BOARD,
Washington, D. C., August 27, 1943.

Hon. ARTHUR H. VANDENBERG,
United States Senate, Washington, D. C.

DEAR SENATOR VANDENBERG: This is in reply to your letter of June 15 in which you ask a number of questions concerning the old-age and survivors insurance program and the Federal old-age and survivors insurance trust fund. In addition to answering your specific questions, I am appending a presentation of the major reasons why, in the opinion of the Social Security Board, it would be unwise to defer the increase in the contribution rates of the program now scheduled to take effect on January 1, 1944.

I am answering your specific questions in order below in accordance with your numbering.

1. What will be the total receipts from social-security taxes for old-age benefits (referring to the existing 1 percent tax on employers and also on employees) for the fiscal year ending June 30, 1943?

Total taxes received under the Federal Insurance Contributions Act during the fiscal year ended June 30, 1943, amounted to $1,130,000,000.

2. What will be the total draft upon this fund for (*a*) administrative expenses, and (*b*) the payment of benefits for the fiscal year ending June 30, 1943?

Total benefit payments from the trust fund during the fiscal year ended June 30, 1943, amounted to $149,000,000 and reimbursement for administrative expenses amounted to $27,000,000, or a total of $176,000,000.

3. What will be the reserve under this section of the law on June 30, 1943?

The total assets of the trust fund as of June 30, 1943, were $1,268,000,000.

4. What will be the highest prospective annual benefits to be paid in the ensuing 5 years? I shall be glad to have this question answered not only on the basis of your original actuarial calculations but also on the basis of the maximum charge against the fund which you might contemplate in any of the next 5 ensuing years.

Rapid changes in the patterns of employment and earnings during and after the war as well as the extra war mortality, and the numerous other uncertainties connected with the changing national and international situation, make it very difficult to estimate old-age and survivors insurance disbursements during the coming 5 years.

Numerous assumptions must be made as a basis for specific estimates of prospective annual benefits. The use of differing assumptions would naturally produce quite divergent results. On a basis of two different sets of assumptions, each of which seems reasonable in view of the present economic situation and the possibilities inherent in the changing situation, it appears that annual benefit payments during the highest of the ensuing 5 years might run as low as $450,000,000 on the one hand, or as high as $900,000,000 on the other. On the assumption that the highest amount of annual benefit payments for the 5 fiscal-year period ending June 30, 1948, is $900,000,000, and that approximately $40,000 000 is disbursed for administrative expenses, it would appear that a total of $940,000, would represent the highest annual expenditures expected in the 5 fiscal years ending June 30, 1948. It is possible, however, that benefit disbursements for a particular year during this period might fall outside the range between these two estimates. Under a combination of extreme circumstances in which a substantially larger number of aged persons than was assumed in the preceding estimates build up wage credits in covered employment and then retire and the toll of the war is reflected in increased survivors' payments, it could happen that total expenditures in the fiscal year ending June 30, 1948, would exceed $940,000,000 and would approach one-third of the assets of the fund as of June 30, 1943. It would be reasonable, however, to refer to $940,000,000 as the probable maximum expenditure.

The foregoing figures are tentative since they are made substantially in advance of the Fourth Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund. They are based on a rough projection of certain of the estimates contained in the third annual report, a copy of which is available in the office of the clerk of the Senate Committee on Finance.

5. What pay-roll tax on employer and employee is necessary in 1944 in order to maintain a "reserve" which is "three times the highest annual expenditure expected in the ensuing 5 years"?

The answer to this question depends, of course, upon the choice of assumptions as to conditions affecting both amounts of taxable wages and amounts of expenditure. Consistent with probable maximum expenditures of $940,000,000 for the fiscal year ending June 30, 1948, the probable maximum for the calendar year ending December 31, 1949, would be about $1,100,000,000. If no employer or employee contributions were collected in 1944, the assets on December 31, 1944, would amount to about $4,600,000,000, which is more than three times the estimated expenditures during the calendar year 1949. Under these assumptions, therefore, no taxes would be required in 1944 to maintain a ratio of assets to expenditures (in the fifth ensuing year) of at least 3 to 1, but the rates of 2 percent each on employers and employees now scheduled in the law are desirable for the adequate long-run financing of the program and represent appropriate minimum rates for 1944 under present circumstances, as pointed out below.

6. Is it, or is it not, a fact that the social security pay-roll taxes which would be collected in 1944 at 1 percent (without rate change) would be equal to the taxes (and actually exceed them) which you and your Board estimated 4 years ago could be collected in 1944 at the rate of 2 percent on employers and employees?

On the assumptions that the social security pay-roll taxes continue at their present rates of 1 percent each on employers and employees and that the amount of taxable wages remains at its 1943 level, over $1,300,000,000 would be collected in taxes under the Federal Insurance Contributions Act during 1944. This amount would be in excess of the estimate for 1944 presented in the report of the Senate Committee on Finance on the Social Security Act Amendments of 1939, which stated that the actual figures for any year would differ from those shown (S. Rept. No. 734, 76th Cong., pp. 1718). This qualification was necessarily made in the report, since the figures presented were a straight-line projection for a 15-year period based on then existing levels of earnings and employment and took no account of specific year-to-year fluctuations around the projection. The annual figures in the report were illustrative and do not indicate the amounts necessary to finance the program in any given year or under circumstances where wage credits of workers have risen above previous expectations.

The larger-than-expected taxes have resulted from the high levels of employment and wages accompanying the war which has similarly increased potential benefit obligations of the fund over those anticipated in 1939. The great increase in the number of persons acquiring wage credits is indicated by the fact that in the second quarter of 1939, when the report referred to was prepared, 26.9 million workers had taxable wages, whereas in the last quarter of 1942 the corresponding figure was 37.9 million persons.

The major reasons why it would be unwise, in the opinion of the Social Security Board, to defer the increase in the contribution rates now scheduled to take effect on January 1, 1944, may be stated as follows:

(1) The contribution rates scheduled in the existing law, together with interest receipts to the trust fund, may eventually prove inadequate to meet the benefit payments provided in the existing law and the administrative expenses of the program, depending upon developments which cannot be foreseen with confidence. Any reduction in the scheduled contribution rates would lessen the temporary excess of receipts over disbursements, would lessen what would otherwise be the size of the fund, and hence, would reduce the future interest income of the fund. This would increase the likelihood of an eventual deficit, or would hasten and increase the size of such a deficit. No doubt the existing law would be amended before an actual deficit developed. At such

time an increase in contribution rates beyond the highest now scheduled, or a reduction in the scope or level of benefits, or a Federal subsidy, or some combination of the three, would become necessary. A reduction in the tax rates scheduled to apply in 1944 would be a step toward such an eventual situation.

(2) A consideration of the provisions of the existing law concerning the reports which the board of trustees of the trust fund is required to make to Congress supports the view that the scheduled tax rates for the year 1944 should not be reduced. It is true that the existing law requires the board of trustees to report to Congress whenever the board is of the opinion "that during the ensuing 5 fiscal years the trust fund will exceed three times the highest annual expenditures anticipated during that 5-fiscal-year period." However, the law does not require Congress to take any action upon the receipt of such a report, nor does it suggest that the three-time rule is the sole indicator of the proper size of the reserve. Indeed, as I tried to bring out in my letter of September 2, 1942, to you, this provision was written into the law with the thought that it would be meaningful only with respect to the reserve when the benefit load has reached a considerable degree of stability and not for the early years.

(3) The unusually high level of tax receipts under the old-age and survivors insurance program during the past year or so should not be thought of as constituting a clear gain to the trust fund. The wages which give rise to the increased current receipts will also, in the future, serve to qualify many individuals for benefits who would not otherwise receive them and will increase the potential benefit amounts payable to other individuals. In other words, the increased present income to the fund means increased future disbursements from the fund. A reduction in the scheduled tax rates of the program because of wartime fluctuations in the amount of taxable wages under the program would seem to be unsound in the light of the increasing liabilities. Moreover, it would lend credence to the thought that scheduled tax rates are not to be taken seriously, but that increases and decreases in the scheduled rates are to be expected in accordance with temporary economic fluctuations.

(4) The chief reason why a graduated schedule of contribution rates was incorporated in the law was to permit the ultimate contribution rates of the program to become effective gradually. The scheduled 1 percent increase in the rate of the taxes on employers and employees would not seem unduly burdensome, particularly since its existence in the law has led to its being anticipated and discounted long ago. Indeed, because of the present high levels of business activity and wages, the scheduled increase would be less burdensome on employers and employees than might ordinarily be the case. Moreover, a postponement of the scheduled increase in tax rates would not reduce the long-run tax burden of contributors, whereas a continuance of the 1-percent rates is likely to mislead contributors with respect to the actual costs of the old-age and survivors insurance program and would lead to the necessity for sharper increases in pay-roll taxes in later periods when business conditions and earnings may be less favorable than at present.

(5) In the early years of the operation of the old-age and survivors insurance system the actuarial value of the benefits provided is very many times the value of the individual worker's contribution. For example, a single individual who contributes for 10 years to the system and at the maximum salary taxable under the law ($250 per month) might have obtained from a commercial insurance company an annuity of only about $2 a month with his own contributions; whereas, this law entitles him to a benefit of $44 per month—or 22 times the amount purchasable from an insurance company by his own contributions. (S. Rept. No. 734, 76th Cong., p. 16.) A married man might be entitled to $66 per month or 33 times the value of his own contributions. Moreover, the actuarial value of the survivorship benefits alone is crudely equivalent to a 1-percent contribution rate. The present value of these survivors' benefits at the date of death (corresponding to the face amount of life insurance) is between $3,000 to $10,000 for most families (and as high as $15,000 for some families). Therefore equity to the contributors who do not receive benefits until after many years suggests that the contribution rates be increased to 2 percent.

(6) In addition to the equity of levying contributions at the 2-percent rate, it would seem prudent to increase the rate to 2 percent in order to convey to the contributors the real value of their insurance protection. The continuation of the present 1-percent rate tends to undervalue the protection afforded in the

minds of the contributors and their families as well as employers and the public generally.

(7) As the President pointed out in his letter of October 3, 1942, adherence to the scheduled contribution rates of the program is not only in accordance with the necessities of the program itself, but at the same time "would contribute to the noninflationary financing of the rapidly mounting war expenditures."

The fact that there are these two good reasons for adhering to the scheduled contribution rates does not mean that social-security contributions are being levied for other purposes than social security. As you know, all of the contributions are deposited in the trust fund and all of the bonds held by the trust fund are United States Government securities. As the representative Advisory Council on Social Security stated in its report of December 1938, it is necessary and desirable that these contributions be invested in United States Government securities. A large portion of life-insurance reserves are invested in Government securities but the policyholder still does not feel that he pays for anything else but his insurance.

The social-security contributor benefits by increased contributions and their investment in two very important ways. First, because the collection and investment of these contributions at this time help to combat inflation. As the life-insurance companies have pointed out in their recent Nation-wide advertising campaign, it is a matter of vital importance to all insurance beneficiaries to combat inflation which automatically results in a decrease in the purchasing power of their benefits.

The second reason why social-security contributors benefit from this increase in rates is that future annual Government expenditures will be proportionately lower. This is because the Government debt in the hands of banks and other private investors will be that much less. Or, putting it another way, the Government will pay to the trust fund what it would otherwise have been obliged to pay to these banks and other private investors. In other words, instead of having to make two payments—one to the trust fund and another to the banks, the Government will only have to make the one payment to the trust fund.

Some people have said that the fact that the Government will be required to levy taxes to redeem the Government obligations issued to the trust fund means that the social security contributors are being taxed twice for the same purpose. This, as you know, is not true. The truth is that the social security contributors are taxed only once to pay for their benefits when they make their regular contributions. As taxpayers they may also be obliged to pay taxes to redeem Government obligations issued to the trust fund, but when they do so they are paying for the cost of the war and not for the cost of social security benefits. They would have to pay these taxes to cover the cost of the war whether the bonds are sold to the trust fund or to individuals or to financial institutions.

The same situation exists as regards the purchasers of War bonds. They pay the Government once for the Government's promise to pay them the face value of their War bonds. They pay the Government again in the form of taxes to enable the Government to pay them back the amount that they loaned the Government. However, then they pay their taxes as citizens to enable the Government to pay them as creditors, they are paying for the cost of the war and not paying the Government twice for the same War bond.

So far as social-security contributors are concerned, the net result is that if these increased contributions are not paid now they will be worse off in later years because they will have to pay higher social-security contributions then and will also have to pay the same amount of taxes to cover the Government debt.

I am pleased to have had the opportunity to provide you with the foregoing material. If I can be of any further assistance to you, please call on me.

Sincerely yours,

/s/ A. J. Altmeyer, *Chairman.*

Senator Vandenberg. Mr. M. Albert Linton, president of the Provident Mutual Life Insurance Co., Philadelphia, intended to appear before the committee. I have a copy of his brief, which I think would be feasible to put in the record.

The Chairman. It may be put in the record.

(The brief of Mr. Linton is as follows:)

BRIEF OF M. ALBERT LINTON, PRESIDENT, PROVIDENT MUTUAL LIFE INSURANCE CO.

Under the Social Security Act the present tax of 2 percent paid jointly by employers and employees to support the old-age and survivors insurance program is due to rise to 4 percent January 1, 1944, to 5 percent 2 years later and to 6 percent in 1949. Under the law as it stood in 1942 the rise to 4 percent would have taken place January 1, 1943. However, action by Congress retained the 2 percent rate for another year. The question before Congress and the country now is whether the doubling of the tax should be permitted in 1944, raising the anticipated tax receipts from 1.3 billions of dollars to 2.6 billions.

Many workers, of course, are enjoying abnormally large incomes and to them the increase would not be burdensome. The same cannot be said for millions of salaried workers who are hard pressed between salary ceilings, and taxes and living costs. We should be very sure that the increase is necessary and desirable before permitting it to go into effect.

When the Social Security Act was amended in 1939 Congress adopted a pay-as-you-go system of financing, supplemented by provision for a contingency reserve to support the program should tax receipts fall off severely in times of poor business. The exact size of the contingency reserve fund is not specified in the law but it is provided that Congress shall be notified if the trustees of the fund find the reserve has fallen to a figure that is unduly small or has exceeded an amount equal to three times the highest annual outlay anticipated during the ensuing 5-year period. This latter provision clearly indicates the maximum size of the fund contemplated by Congress.

Under the foregoing plan it was realized that the outgo some day would rise above the receipts from the ultimate 6 percent pay-roll tax rate; and that when that happened the General Treasury would have to supplement the pay-roll tax receipts by appropriations from general revenue funds. This supplement was estimated to reach an amount equivalent to some 4 percent of pay rolls. Incidentally, a subsidy from general revenue funds to support a contributor social security system is in line with the practice in many other countries.

What are the facts of the present situation? In the first place the contingency reserve has increased rapidly. At the end of this year it will be in the neighborhood of 4¾ billions. The estimated tax receipts in 1944 at the present 2 percent rate will be 1.3 billions. The outgo for benefit payments and expenses in 1944 will probably not exceed one-sixth of that sum. For 1943 the total will be under 200 millions.

The Chairman of the Social Security Board in a letter to Senator Vandenberg appearing in the Congressional Record, estimated that the total outgo for benefit payments and expenses in the fiscal year ending June 30, 1948, might be as high as 940 millions and as low as 490 millions, allowing for the same expenses at the lower rate as at the higher one. For the calendar year 1944 the probable maximum is given at 1 100 millions. No probable minimum is indicated but it is not likely that it would be much in excess of 600 millions.

Here, therefore, is the situation: We are collecting over six times as much as the current outgo. The contingency reserve at the beginning of 1944 will be well over four times the probable maximum outgo in 1949, 5 years hence, and about eight times the probable minimum. Under such conditions hard-pressed workers may well ask why their social security tax should be doubled. Business, especially small business, may ask the same question.

In the light of what has happened, some still broader questions arise. For example, under the schedule in the law, the tax rate must go to 6 percent in 1949. May it not be possible that some other date for reaching the 6 percent level would be better? Again the schedule of tax rates is 2-4-5-6 percent. Each 1 percent now means some $600,000,000 a year in tax receipts. Might it not be wise to make the series 2-3-4-5-6 percent, thus easing the adjustment to the higher level? It is evident that the tax schedule and the contingency reserve formula as things now stand are not coordinated. Should they not be? And, if so, which should be modified, the tax schedule, the reserve formula, or both?

Should not a thorough review of this situation be made in the near future? In the meantime should the tax rates be increased at all for 1944? Unless something quite unforeseen should occur, the reserve is likely to increase to some 5¾ billions by the end of that year; and as already pointed out, the outgo will in all likelihood be less than one-sixth of the income produced by the present 2 percent tax rate.

An argument advanced for doubling the present 2 percent tax rate in 1944 is that the increase would siphon off excess purchasing power and hence be anti-inflationary in its effects. One serious defect in this argument is that if social security taxes should be imposed for a double purpose there is danger that when the inflation threat has passed, the excess tax receipts will be used unwisely to the detriment of the social security system. Would it not be better to levy anti-inflationary taxes separately, without a social security bait, and then to repeal them when the need has disappeared?

It is going to be pretty difficult under the circumstances to convince employees and employers that it is necessary to double the old-age pay-roll tax rate January 1, and collect in 1944 an additional 1.3 billions to raise the reserve fund to some $7,000,000,000 by the end of that year. I have no fear that when benefit payments begin to reach sizable figures that those included in the social security system will be willing to pay increased taxes to support it. However, under conditions as they exist today, I wonder, if they knew the facts, whether they would approve of an increase in 1944.

The CHAIRMAN. This committee will recess until 10 tomorrow.

(Whereupon, at 12 o'clock m., the committee adjourned until 10 a. m., Friday, October 15, 1943.)

FREEZING THE CONTRIBUTION RATES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AT 1 PERCENT FOR 1944

FRIDAY, OCTOBER 15, 1943

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Walsh, Bailey, Clark, Gerry, Guffey, Johnson, Lucas, Vandenberg, Davis, Danaher, Taft, Butler, and Millikin.

The CHAIRMAN. The committee will please come to order. Mr. Daugherty, come around, please.

STATEMENT OF PAUL J. DAUGHERTY, DIRECTOR, SOCIAL SECURITY DEPARTMENT, OHIO CHAMBER OF COMMERCE, COLUMBUS, OHIO

Mr. DAUGHERTY. Mr. Chairman and gentleman of the committee, I am Paul J. Daugherty, representing the Ohio Chamber of Commerce, 1 South Fourth Street, Columbus, Ohio.

The Ohio Chamber of Commerce, the oldest and largest State-wide organization in the State of Ohio, comprehending all classes of large and small business, agriculture, and the professions, favors a retention of the present social-security tax rate of 1 percent on the employer and 1 percent on the employee until such time as there is demonstrated a need for increased rates.

An examination of the Third Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and of other official sources shows there is no disagreement on the fact that the present and prospective old-age and survivors insurance fund is now in excess of the statutory "three-times formula" by many millions of dollars.

It has been estimated that the trust fund balance on December 31, 1944, will amount to at least $4,600,000,000. Even the highest estimate of benefit costs for the year ending December 31, 1949, shows that this reserve is above the ratio of 3-to-1 by $1,300,000,000. We believe that when the Congress enacted the three-times formula in 1939 it had a definite purpose in mind; namely, that of setting up a measuring stick which would permit the gradual accumulation of a contingent reserve fund of sufficient size to meet adequately the future increasing costs. Congress also discarded the so-called full reserve idea, under which, it was estimated, the fund eventually would reach some $40,000,000,000, or more. Since present revenues at the existing

1-percent rate on both employers and employees are more than adequate in terms of the congressional measuring stick, we believe that there is no financial or ethical reason for arbitrarily doubling these rates at this time. To do so would mean that we would revert to the original tax schedule, which contemplated the full reserve, and place the three-times formula on the shelf as being a meaningless instrument.

It has been argued that a reduction in the scheduled contribution rates would lessen the excess of receipts over disbursements and as such would keep the trust fund at a lower level and thereby reduce the interest income to the trust fund. We submit that this argument in and of itself does not change the basic question in any manner. The interest income to the trust fund represents, in reality, a governmental contribution which is derived from current taxes. If, in future years, it becomes necessary for the Government to appropriate directly to the old-age and survivors trust fund, we know that this will be done, whether it is in the form of a direct statutory interest payment or in the form of a regular governmental appropriation.

Testimony presented in 1939 indicated that there would have to be a direct governmental appropriation at some time in the future, whether interest was paid or not. See hearings before Committee on Ways and Means, volume 3, Seventy-sixth Congress, page 2112, 1939.

In the meantime, the interest factor represents a bookkeeping entry which must be recognized in each budget year.

It has been stated that the Congress need not recognize the three-times rule as the sole indicator of the proper size of the reserve fund; that in reality it would not have meaning until the benefit load has reached a considerable degree of stability. It is difficult for us to understand what is meant by "stability" because the official reports show that the estimated benefit costs of the present old-age and survivors insurance program will continue to increase into the future for many decades. If the three-times test were not to have effect until the year 1970 or 1980, it would be meaningless. We think that since this formula looks ahead for a period of 5 years and takes the highest estimated benefit cost and trebles it, it is a useful and reasonable instrument to be employed in anticipating the gradual increase in costs.

It has been contended that the present high level of tax receipts under the old-age and survivors insurance program during recent years is not clear gain to the trust fund. We agree that this is a reasonable conclusion in certain instances. It is obvious that more people are being paid higher wages and are being given steadier work and that the potential benefits payable in future years may be higher than they otherwise would. In the third annual report of the board of trustees, certain factors are cited to show that there are also other contributions to the fund which more nearly represent a clear gain. These are:

First. A reduction in benefit payments due to the increase in employment opportunities. This applies both to individuals who are beyond age 65 and also to those entitled to survivors' benefits who are now working. In this particular group, it would seem that the fund was being enhanced both on the expenditure and the income side.

Second. The report cites the "employment of women and other temporary workers" as one of the factors leading to an increase in the assets of the trust fund. In this group are listed married women, unmarried women, and men shifting from noncovered employments to covered employments. The trustees say,

> In summary, it may be said that the heavy increases in covered employment of men and women not normally a part of the system should result in a net addition to the fund if the war is not greatly prolonged, and if a large proportion of these persons return to noncovered employment, or, in the case of married women, return to the home.

Third. The report also lists "Government civilian employment" and "military service" as possible factors leading to increased assets in the fund. A doubled rate on these individuals appears inequitable and unreasonable. Also, it is reasonable to assume that the estimated benefits for the years through 1949 have been adjusted to include this increased risk. Thus, the three-times formula will and does anticipate the fact that there are more workers and higher wages and possible increased future liabilities.

Has the tax rate been discounted? It has been stated that because of the present high levels of business activity and earnings, the scheduled increase of the rates to 2 percent on the employer and 2 percent on the employee on January 1, 1944, would be less burdensome at this time. We believe this to be only partially true. We recognize that the exigencies of war make it imperative that all citizens share in financing the war to the fullest extent possible. However, we submit that the use of a direct pay-roll tax without exemptions—even though it applies to a large segment of the taxpaying group, both employee and employer—is not a fair method. If we could isolate workers and employers from the present effect of increased income taxes, increased cost of living, wage and price freezing, priorities, and other forms of wartime regulations, the case for increased pay-roll taxes might be more tenable.

To illustrate the point, we need only consider the fact that many employers and employees in essential industries have had substantial increases in their business and earnings. So far as some of these employers are concerned, the case probably could be made that they will pay the tax either in the form of increased social-security rates or through the excess-profits tax.

On the other hand, there are many thousands of employers and employees who, through no fault of their own, are not in this favorable position. There are employers in the State of Ohio who are having a serious time making ends meet in spite of the fact that overall business conditions are good.

If we consider the employees' side of the picture, the same situation prevails. We know that there are many office and clerical workers—the so-called white-collar group—who have been bearing a full share in increased income taxes and the purchase of War bonds. But, mark you, they are also faced with increases in the cost of living and at the same time are subject to the wage and salary restrictions which prevent individual adjustments to meet the changing economic conditions.

In view of these facts, we do not believe that it can be said that a doubled social-security tax will be absorbed easily. Certainly, it will not be levied on the basis of ability to pay. Rather it will apply to the first dollar of earnings of any individual, and the first dollar of pay roll of any employer, without regard as to whether the individual taxpayer has inflationary funds in his pocket or not.

Senator TAFT. You mean there is a certain group that considers the increased social-security tax more equitable than the sales tax?

Mr. DAUGHERTY. Exactly.

Senator TAFT. That has not only no relation to income but it hits a certain group and leaves another group entirely exempt.

Mr. DAUGHERTY. That is right.

The CHAIRMAN. As a tax it is really a capital levy on industry. That is, to my mind, not an argument against a social-security system, but it is an argument against any undue increases in this type of tax.

Mr. DAUGHERTY. That is right, sir.

Senator TAFT. You are merely presenting an answer to the argument that this is a time we should get all the money we can to finance the Government.

Mr. DAUGHERTY. That is right.

Senator VANDENBERG. Don't you agree there can never be an argument against any kind of social-security tax that is required to pay for a specific social-security benefit, but the moment you divert from that fundamental rule of honesty you are off to the races in any event?

Mr. DAUGHERTY. That is exactly right.

Conclusion: I wish to make it clear to the gentlemen of this committee that the views of the Ohio Chamber of Commerce coincide with the views of other outstanding business organizations in the United States on this subject.

At a taxation conference held in Chicago in September of this year, business organizations from all parts of the country were united in their opinion that the social-security tax rate should not be increased on January 1, 1944. In general, the position of these business associations is as follows:

> Automatic increases in tax rates: All provisions for automatic increases in the rates of the old-age and survivors insurance pay-roll taxes should be eliminated from the law, and the present 1 percent rates should be continued until the necessity for an adjustment is made to appear.

At this meeting there were 21 State chambers of commerce, the Chamber of Commerce of the United States, the National Association of Manufacturers, a large number of local chambers of commerce, and other national, State, and local trade associations.

Thus, in summary, our position is this——

Senator VANDENBERG. Excuse me. What was that meeting?

Mr. DAUGHERTY. It was a conference sponsored by the Associated Chambers of Commerce, Senator, in Chicago.

Senator VANDENBERG. Is there a list available of all those who participated?

Mr. DAUGHERTY. I can submit that. I do not have that with me.

Senator VANDENBERG. I would like very much to have that put in the record.

Mr. DAUGHERTY. All right, sir.

(The list referred to is as follows:)

United States Chamber of Commerce.
National Association of Manufacturers.
Alabama: Associated Industries of Alabama.
Arizona: Arizona Tax Research Association.
California: California State Chamber of Commerce; Los Angeles Chamber of Commerce; Oakland Chamber of Commerce.

Colorado: Manufacturers Association of Colorado; Colorado State Chamber of Commerce.
Connecticut: Manufacturers Association of Connecticut; Manufacturers Association of Meridan, Inc.
Delaware: Delaware Chamber of Commerce.
Illinois: Illinois Bankers Association; Illinois Manufacturers' Association; Illinois State Chamber of Commerce.
Indiana: Indiana State Chamber of Commerce; Indiana Manufacturers' Association.
Kansas: Associated Industries of Kansas; Kansas State Chamber of Commerce.
Kentucky: Associated Industries of Kentucky.
Maine: Associated Industries of Maine.
Michigan: Michigan Manufacturers' Association; Employers Association of Detroit; Muskegon Employers' Association.
Minnesota: Minneapolis Civic and Commerce Association.
Mississippi: Jackson Chamber of Commerce.
Montana: Butte Chamber of Commerce; Associated Industries of Montana.
New Jersey: New Jersey State Chamber of Commerce; Manufacturers' Association of New Jersey.
New York: Associated Industries of New York State, Inc.; Associated State Chamber of Commerce.
North Dakota: Greater North Dakota Association.
Ohio: Cincinnati Chamber of Commerce, Toledo Chamber of Commerce; Marion Chamber of Commerce; the Ohio Chamber of Commerce; Newark Chamber of Commerce; Mansfield Chamber of Commerce; The Ohio Manufacturers' Association, The Industrial Association, Cincinnati.
Oklahoma: Oklahoma State Chamber of Commerce.
Pennsylvania: Pennsylvania State Chamber of Commerce; Pennsylvania Manufacturers' Association.
Rhode Island: Associated Industries of Rhode Island.
South Carolina: Organized Business, Inc.
South Dakota: Greater South Dakota Association.
Tennessee: Tennessee Manufacturers' Association.
Texas: Texas State Manufacturers' Association; East Dallas Chamber of Commerce.
Virginia: Virginia State Manufacturers' Association.
West Virginia: West Virginia Manufacturers' Association; West Virginia State Chamber of Commerce.
Wisconsin: Wisconsin Manufacturers' Association; Wisconsin State Chamber of Commerce.

NATIONAL TRADE ASSOCIATIONS

American Bankers Association.
Association of American Railroads.
Automobile Manufacturers' Association.
Folding Paper Box Association of America.
Hardware Mutuals.
Frank Luther, New York City.
Millers National Federation.
National Association of Building Owners and Managers.
National Founders Association.
National Paint, Varnish, and Lacquer Association.
Steel Plate Fabricators Association.

ADDITIONAL ASSOCIATIONS REPRESENTED BY THE ASSOCIATED STATE CHAMBERS OF COMMERCE

Massachusetts State Chamber of Commerce.
Montana State Chamber of Commerce.
Providence Chamber of Commerce, Rhode Island.
East Texas Chamber of Commerce.
Virginia State Chamber of Commerce.

Mr. DAUGHERTY. 1. The three-times formula contained in the present law, using highest estimated benefits, clearly shows that present reserves are more than adequate.

2. In view of the tremendous increase in taxation which have been found necessary to finance the war, we believe that serious inequities will result from an arbitrary doubling of the pay-roll taxes when the need for such increases is not established.

3. Because excess tax collections in the old age and survivors trust fund are aiding in the financing of the war, we do not believe that it is fair or proper that a special group in the taxpaying population should be called upon to pay a double tax.

The problem of financing the war, of course, is a separate issue and if increased taxes or enforced savings are in order they should be made to apply universally and not be applied solely to the employers and workers in the country who pay the social-security taxes.

4. Finally, we contend that the action taken by this committee last year—1942—in recommending freezing the social-security tax, and concurred in by the Congress, was proper; that the experience of the past year has proved the wisdom of this committee's judgment.

In 1939 and 1942 Congress, by postponing scheduled increases in the rates, asserted its belief that additional pay-roll taxes were not needed at that time. What was true in 1939 and 1942 is even more true today.

The CHAIRMAN. Are there any questions by any members of the committee?

Mr. DAUGHERTY. Mr. Chairman, I have here an analysis of the third annual report of the board of trustees, applying the three-times formula to various sums shown in that report. I would like to submit it to the committee for their consideration.

The CHAIRMAN. You may insert it in the record.

(The analysis referred to is as follows:)

DOUBLING OF OLD-AGE AND SURVIVORS INSURANCE TAX RATE ON JANUARY 1, 1944, UNJUSTIFIED UPON ANALYSIS OF TRUSTEES' REPORT FOR FISCAL YEAR 1942

In 1942 the Congress voted to freeze the old-age and survivors insurance (social security) tax at the existing 1 percent rate on the employer and 1 percent rate on the employee through the calendar year 1943. This action was based on the excellent status of the Federal old-age and survivors insurance trust fund as reported for the fiscal year ending June 30, 1941.

The third annual report of the board of trustees of the Federal old-age and survivors insurance trust fund for the fiscal year ending June 30, 1942, was filed with the Congress on May 28, 1943. (Congressional Record, vol. 89, No. 96, p. 4980.)

A careful examination of the facts contained in this report leads to the following conclusions:

1. Present tax rates of 1 percent are in excess of current needs; the trust fund is more than adequate.

2. An automatic doubling of these rates on January 1, 1944, to 2 percent on the employer and 2 percent on the employee, in accordance with the existing schedule contained in sections 1400 and 1410 of the Internal Revenue Code, is not justified.

A CONTINGENT RESERVE ONLY

In 1939, when the social-security tax was frozen for 3 years at the 1 percent level upon the recommendation of the Secretary of Treasury, he said:

"We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or increases in the volume of benefit payments. Specifically, I would suggest to Congress that it plan the financing of the old-age-insurance system with a view to maintaining for use in contingencies an eventual reserve amounting to not more than three times the highest prospective annual benefits in the ensuing 5 years." (Hearings relative to the Social Security Act amendments of 1939, vol. 3, pp. 2113–2114.)

This recommendation was accepted by the Congress, and the so-called full reserve plan discarded for a contingent reserve. According to the present law, a report to Congress is to be made, "whenever the board of trustees is of the opinion that during the ensuing 5 fiscal years, the trust fund will exceed three times the highest annual expenditures anticipated during that (ensuing) 5-fiscal-year period." (Social Security Act, title II, sec. 201 (b) (3).)

The purpose of the following analysis, based on the trustees' report for the fiscal year ended June 30, 1942, is to determine whether or not there is justification for returning to the original tax-rate schedule (calling for a 4-percent combined tax in 1944 and 1945) or whether present rates are adequate. Comparison of various reserve balances in accordance with the official formula is necessary in order to ascertain the answer.

ANALYSIS OF JUNE 30, 1942, BALANCE

There was a balance of $3,227,000,000 in the old-age and survivors' insurance trust fund on June 30, 1942. (Daily Statement of the United States Treasury, July 15, 1943, table II, p. 13. Actual balance: $3,227,194,145.25.) In order to test this official balance, it is necessary to determine the estimated benefit costs for the fiscal year ending June 30, 1947 (5 years in advance).

The trustees' report proposes three possible alternative benefit estimates for 1947 as follows (third annual trustees' report, table 4, p. 24):

1. Low rate of retirement among the aged	380,000,000
2. Medium rate of retirement among the aged	515,000,000
3. High rate of retirement among the aged	775,000,000

Obviously, the most conservative method of testing the 1942 trust fund balance would be to use the highest estimated benefit cost of $775,000,000 in the test for adequacy as follows:

Trust fund balance (end of fiscal year 1942)	$3,227,000,000
Highest estimated benefits in ensuing 5 years 1947 ($775,000,000 times 3)	2,325,000,000
Excess reserve	902,000,000

Under this test, the trust fund on June 30, 1942, instead of being three times the highest benefits, is actually over four times the highest benefit estimate in the ensuing 5-year period.

Under the estimate low rate of retirement, the excess reserve would be $1,987,000,000. The trust fund would be over eight times the highest benefits. Under the medium rate of retirement, the 1942 reserves would be over six times the highest benefits.

The trustees' report contains an additional series of estimates with respect to the probable benefit costs in the year 1947, which show what the aggregate amount of benefits might be if various percentages (25 to 100 percent) of all wage earners eligible for retirement benefits were to retire in the year 1947.

The maximum benefit cost for the year 1947—assuming that all eligible wage earners were to retire at the end of that fiscal year—is estimated at $920,000,000. (Third annual trustees' report, table 6, p. 26.)

If we apply the "three times" criterion to the trust-fund balance on June 30, 1942, of $3,227,000,000, we find that the fund is still in excess of the "three times" requirement in the amount of $467,000,000.

Trust-fund balance (end of fiscal year 1942)	$3,227,000,000
Highest estimated benefits assuming 100 percent retirement in 1947 ($920,000,000 times 3)	2,760,000,000
Excess reserve	467,000,000

The above table shows conclusively that the most sanguine estimate of benefit costs for the year 1947 is still in excess of the "three times" requirement.

ANALYSIS OF 1943 BALANCE

The third annual trustees' report, issued in May 1943, contains estimates of receipts and expenditures for the fiscal year ending June 30, 1943. These compare with the actual experience reported in the daily statement of the United States Treasury on July 15, 1943, as follows:

	Estimated	*Actual*
Trust-fund balance, June 30, 1942	$3,227,000,000	$3,227,000,000
Taxes during year	1,105,000,000	1,130,000,000
Interest during year	88,000,000	87,000,000
Total income	1,193,000,000	[1] 1,218,000,000
Total expenses	184,000,000	177,000,000
Excess collections	1,009,000,000	1,041,000,000
Trust-fund balance, June 30, 1943	4,236,000,000	4,268,000,000

[1] Increased $1,000,000 due to rounding of amounts.

NOTE.—Column headed "Estimated"—reference is made to third annual trustees' report, table 4, p. 24. Column headed "Actual"—reference is made to daily statement of the U. S. Treasury, p. 13, table II, trust fund, June 30, 1943, $4,268,295,983.32.

In order to test the actual balance of $4,268,000,000 on hand, it is necessary to estimate the possible benefit cost in 1948. Based on a projection of the highest benefit cost estimate for 1947, a potential benefit cost of $950,000,000 for the year 1948 has been estimated. Applying the "three times" test to the actual 1943 balance:

Trust fund balance, June 30, 1943	$4,268,000,000
Highest estimated benefits in ensuing 5 years, 1948 ($950,000,000 times 3)	2,850,000,000
Excess reserve	1,418,000,000

The actual 1943 balance is over 4.4 times the highest estimated annual benefit cost in the ensuing 5 years.

INCREASED TAX RATE UNNECESSARY

From the foregoing analysis, it is clear that the 1942 and 1943 reserve balances are many millions of dollars in excess of the "three times" requirement established by law. The only remaining question is to determine what the effect of a continued 1 percent tax rate would be as compared with the official estimates of the trustees' report which assume that the old schedule of increased tax rates will be in effect. This comparison is given in the table on page 6.

Part I of the table is based on the official estimates in the trustees' report which assume highest benefit costs and lowest tax yields.

Part II adjusts the tax estimates conservatively to a continued 1 percent tax rate basis on employers and employees and uses the same highest benefit cost estimates.

Part I of the table shows that if the tax rates are allowed to increase according to the original schedule, the trust fund balance at the end of the fiscal year 1947, under the least favorable conditions of employment and highest benefit estimates, will be $11,346,000,000

The board of trustees' third annual report estimates that for the 5-year period 1951–55, the average benefit cost will be $1,600,000,000 per year. Applying the "three times" test to the balance of $11,346,000,000 produces an excess reserve of $6,546,000,000 in 1947.

Trust fund balance (beginning fiscal year 1948)	$11,346,000,000
Highest estimated benefit in 5-year period 1951–55 ($1,600,000,000 times 3)	4,800,000,000
Excess reserve	6,546,000,000

In part II of the table it is assumed that during the 5-year period 1943–47, the tax rate would remain at 1 percent. The income estimates of the trustees' report are conservatively adjusted in accordance with this assumption. Under these conditions the estimated trust fund balance on June 30, 1947, would be $7,015,000,000. This would still be an excess of the "three times" test by $2,215,000,000.

TABLE I.—*Estimated operations of the old-age and survivors insurance trust fund, for 6 fiscal years, July 1, 1941, to June 30, 1947*

[In millions of dollars]

PART I. IF TAX RATES INCREASE ACCORDING TO EXISTING PROVISIONS OF THE SOCIAL SECURITY ACT AND HIGHEST BENEFIT ESTIMATES ARE USED [1]

	1941-42 [2]	1942-43	1943-44	1944-45	1945-46	1946-47
Average combined tax rate (percent)	2	2	[3] 3	4	[4] 4.5	5
Fund at beginning of year	$2,397	$3,227	$4,236	$5,666	$8,101	$9,594
Taxes during year	896	1,105	1,556	2,620	1,930	2,350
Interest during year	71	88	109	145	185	215
Total income	967	1,193	1,665	2,765	2,115	2,565
Benefits during year	110	155	205	295	585	775
Administrative expenses during year	27	29	30	35	37	38
Total disbursements	137	184	235	330	622	813
Excess collections during year	830	1,009	1,430	2,435	1,493	1,752
Fund at end of year	3,227	4,236	5,666	8,101	9,594	11,346

PART II. IF TAX RATE REMAINS AT 1 PERCENT ON EMPLOYER AND 1 PERCENT ON EMPLOYEE AND HIGHEST BENEFIT ESTIMATES ARE USED

	1941-42	1942-43	1943-44	1944-45	1945-46	1946-47
Average combined tax rate (percent)	2	2	2	2	2	2
Fund at beginning of year	$2,397	$3,227	$4,268	$5,273	$6,386	$6,756
Taxes during year	896	1,130	1,130	1,310	858	940
Interest during year	71	87	110	133	134	132
Total income	967	[5] 1,218	1,240	1,443	992	1,072
Benefits during year	110	149	205	295	585	775
Administrative expenses during year	27	28	30	35	37	38
Total disbursements	137	177	235	330	622	813
Excess collections during year	830	1,041	1,005	1,113	370	259
Fund at end of year	3,227	4,268	5,273	6,386	6,756	7,015

[1] All estimates in this portion of the table are those of the Board of Trustees of the Old-Age and Survivors Insurance Trust Fund, Third Annual Report, table 4.
[2] Actual income and expenditures.
[3] Combined tax rate for last 6 months of 1943 at 2 percent and for first 6 months of 1944 at 4 percent.
[4] Combined tax rate for last 6 months of 1945 at 4 percent and for first 6 months of 1946 at 5 percent.
[5] Actual figures justify total of $1,218,000,000.

CONCLUSIONS

The following conclusions are evident:

1. The 1942 trust fund balance is in excess of the "three times" requirement by $902,000,000 even though highest benefit cost estimates are used.
2. The 1943 trust fund balance is in excess of highest benefit cost estimates for 1948 by $1,418,000,000.
3. Present tax rates of 1 percent are more than sufficient not only to meet current or prospective needs, but also to maintain the trust fund above the statutory reserve requirements.
4. An arbitrary increase of the tax rates on January 1, 1944, to 2 percent on the employer and the 2 percent on the employee is not justified and will produce reserves in excess of current or prospective needs.
5. Under present conditions, increased social security pay roll taxes will create pressure for higher prices and wages.
6. The Congress should revise the taxing provisions of the act in accord with the existing reserve requirements by enacting legislation which will keep the tax rates at the 1 percent level until the "three times" requirement in future years shows the need for increasing the rates.

(Prepared by social security department, Ohio Chamber of Commerce, Columbus, Ohio. August 31. 1943.)

The CHAIRMAN. Are there any other questions? If not, Mr. Daugherty, we thank you for your appearance.

Mr. DAUGHERTY. Thank you very much.

The CHAIRMAN. Mr. Compton.

STATEMENT OF R. T. COMPTON, ASSISTANT DIRECTOR, STATE MANUFACTURERS ASSOCIATIONS DIVISION, NATIONAL INDUSTRIAL COUNCIL, WASHINGTON, D. C.

Mr. COMPTON. My name is R. T. Compton, assistant director, State Manufacturers Association division, National Industrial Council. I have authority today to present the views of 33 state-wide manufacturers and industrial associations of the various States, including the Associated Industries of Alabama, Florida, Georgia, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Missouri, Montana, Nebraska, New York, Oklahoma, Rhode Island, and Vermont; the Manufacturers Associations of California, Colorado, Connecticut, Indiana, Iowa, Michigan, New Hampshire, New Jersey, Ohio, Tennessee, Texas, Utah, Virginia, West Virginia, and Wisconsin; the Columbia Empire Industries, Inc., of Oregon; the Minnesota Employers Association; and the Federated Industries of Washington.

Senator DANAHER. Question, Mr. Chairman.

The CHAIRMAN. Yes.

Senator DANAHER. Will you please tell me what the National Industrial Council is and how it is composed?

Mr. COMPTON. The National Industrial Council is composed of a number of industrial organizations throughout the United States, including 35 State associations and a number of local and national associations. In this instance I am not authorized to represent anybody but the specified State associations.

Senator DANAHER. Does each send a member to some central council?

Mr. COMPTON. Yes, sir.

Senator TAFT. Is it affiliated with the National Association of Manufacturers?

Mr. COMPTON. It is affiliated with the National Association of Manufacturers and with many industrial associations.

Senator DANAHER. Does it have some special function?

Mr. COMPTON. The National Industrial Council I might say is not a policy organization, it is an organization formed for the clearance of information. That is why, as I say, I am representing only these specific State associations who have authorized me to speak for them on this subject.

Senator DAVIS. Is the national headquarters in New York?

Mr. COMPTON. Yes.

The CHAIRMAN. You are located here in Washington?

Mr. COMPTON. I am located here in Washington; yes.

Senator DAVIS. Who is the head of the National Industrial Council?

Mr. COMPTON. William P. Witherow. The head of the group that I represent, however, is John Lovett, of Michigan, who is the chairman of the State associations group in the council.

The Federal old-age and survivors insurance plan was originally set up on a large reserve basis. In 1939 Congress modified this plan by postponing the 1940 increase in pay-roll taxes. This step was repeated in 1942.

All of the industrial organizations listed above favor operation of the program on a pay-as-we-go basis.

Probably it is more accurate to speak of the cash basis as contrasted with the level-premium basis.

Today we are following neither plan. The reserve is larger than is necessary on a cash basis, but the tax is not high enough to pay the level-premium cost of the insurance offered to wage earners.

Today we are advised that the lowest estimate of level-premium cost is about 4 percent of pay rolls. Originally the estimate was much higher than this.

There is some force in the argument that insured wage earners should be required to pay more nearly the value of the insurance they receive. Many could well afford this cost today.

On the other hand, there are many—particularly white-collar employees—whose wages have not increased substantially and to whom the imposition of this additional tax would be just another burden added to the pressure of rising costs of living, withholding taxes, deductions for company pensions, group insurance, and so on—plus deductions that are being made from millions of pay envelopes for purchase of War bonds.

Many employers—war contractors subject to excess-profits taxes—could pay this tax today with 10-cent dollars.

But there are many small employers unable to do war work and deprived of their usual business who are today on a narrow borderline between existence and nonexistence. The Congress has demonstrated many times during the past months that it is acutely aware of the problem of preserving small independent business enterprise in this country.

The pay-roll tax is a tax on costs. Though its rate is still low, it represents a very substantial cost to business in which labor is a large factor. We cannot consider the future pay-roll tax rate without facing the question whether it is advisable to double this cost if the additional tax is not necessary to support the current cash benefit liability of the system.

During the past 4 years the trust fund has, in fact, increased far beyond the levels originally contemplated, despite Congress' action of last year in postponing the increase in the tax rate.

The board of trustees of the Federal old-age and survivors' insurance trust fund has published estimates of future operations based upon three sets of conditions. Under the lowest of these the fund will reach $11,346,000,000 in 1947, and under the highest it will reach $14,651,000,000 in that year. The lowest of these figures is more than twice the original estimate—submitted in the Senate Finance Committee report on the 1939 amendments—despite the delay in increasing the tax.

The following (table 1) is a comparison of the 1939 estimates with actual fund status through 1942, with apparent 1943 fund status based on the first 8 months of the year, and with the board of trustees' estimates for future years.

The board of trustees' estimates are for the fiscal year ending July 30, so the fund would in each case be higher by the close of the calendar year.

TABLE 1.—*Trust fund at close of year*

	1939 Finance Committee estimate (calendar year)	Actual figures (calendar year)		
1940	$1,871,000,000	$2,031,000,000		
1941	2,127,000,000	2,762,000,000		
1942	2,254,000,000	3,688,000,000		
1943	2,651,000,000	[1] 4,843,000,000		
		Current estimates—board of trustees of Federal old-age and survivors' insurance trust fund [2]		
		Low	Medium	High
1944	3,122,000,000	$5,666,000,000	$5,666,000,000	$5,666,000,000
1945	3,506,000,000	8,101,000,000	8,122,000,000	8,229,000,000
1946	3,952,000,000	9,594,000,000	10,352,000,000	11,101,000,000
1947	4,398,000,000	11,346,000,000	13,131,000,000	14,651,000,000

[1] Estimate on 8 months' basis.
[2] Fiscal year ending 6 months earlier than calendar year.

This table shows a comparative statistical summary of the estimates of the old-age and survivors' insurance trust fund which were submitted by your committee in 1939. Those estimates are found in the first column, the left-hand column of this table, indicating that at that time, in 1939, your committee estimated that the balance in the trust fund at the end of 1940 would be $1,871,000,000, and that that would increase down through 1947 to a total of $4,398,000,000. Now, in the right-hand column for the first 3 years we show the actual figures, the actual amounts of the reserve at the end of each of those 3 years. At the end of 1942 the fund was expected to be $2,254,000,000, while actually it was $3,688,000,000. At the end of 1943—this is the calendar year, now—the committee expected that the fund would be $2,651,000,000, while actually by the end of this year, based on an estimate of the first 8 months, the fund will be about $4,843,000,000.

Now, for the future years we turn to the report of the board of trustees, which, as was pointed out yesterday, provides estimates based upon three sets of assumptions: First, continued better business conditions; second, medium conditions; and, third, worse conditions with higher benefits and lower tax incomes.

On the basis of the low estimate, by 1947—and that is by July 1947, the fund will amount to $11,346,000,000 if the rates provided in the present law are continued, as compared with the 1939 estimate of $4,398,000,000. If the high estimate should prevail, then the fund at the end of 1947, with the tax rates now provided, will be $14,651,000,000, as compared with the original estimate of $4,398,000,000.

Senator DAVIS. Is that dependent on the present volume of employment?

Mr. COMPTON. The high estimate would be. The low estimate is assuming that employment will fall off and therefore the tax revenue will decline relatively and benefit payments will increase relatively.

Senator VANDENBERG. You mean if the taxes increase according to the present statutory formula?

Mr. COMPTON. If the tax is increased according to the present statutory formula, yes.

Senator JOHNSON. What would they be in 1947?

Mr. COMPTON. The taxes?

Senator JOHNSON. Yes.

Mr. COMPTON. That is shown on the next page, page 3. If I may go through this table, I will come to that almost immediately.

Senator JOHNSON. What is the rate?

Mr. COMPTON. The rate next year will be 2 percent. For 1946 it will be 2½ percent. It will be 2 percent for 1944 and 1945, and 2½ percent in 1946 and 1947.

Senator JOHNSON. I thought it would be 3 percent.

Mr. COMPTON. No, it does not reach 3 percent until 1949.

There are two reasons for this variation between the present estimates of the fund and the original estimates. The first is the fact that the taxes received have greatly exceeded the original estimate, as shown by the following comparison:

TABLE 2.—*Net receipts of the old-age fund (taxes less administrative costs)*

	1939 Finance Committee estimate (calendar year)	Actual figures (calendar year)		
1940	$501,000,000	$611,000,000		
1941	505,000,000	763,000,000		
1942	504,000,000	985,000,000		
1943	919,000,000	[1] 1,231,000,000		
		Current estimates of board of trustees [2]		
		Low	Medium	High
1944	1,067,000,000	$1,526,000,000	$1,526,000,000	$1,596,000,000
1945	1,078,000,000	2,585,000,000	2,586,000,000	2,678,000,000
1946	1,213,000,000	1,893,000,000	2,460,000,000	2,992,000,000
1947	1,348,000,000	2,312,000,000	3,074,000,000	3,665,000,000

[1] Estimate on 8 months' basis (calendar year).
[2] Fiscal year ending 6 months earlier than calendar year.

To summarize that table, in the left-hand column are the figures estimated by your committee in 1939, taken from the Finance Committee report of that year. In the right-hand column are the actual figures for the first 3 years. In 1940 the revenues were $611,000,000 as compared with the estimate in 1939 of $501,000,000.

In 1941 the actual figures were $763,000,000, as compared with the estimate of $505,000,000.

In 1942 the actual figures were $985,000,000, as compared with the estimate of $504,000,000.

In 1943, based on the first 8 months, we will collect about $1,231,000,000, as compared with an estimate of $919,000,000 originally made by your committee. In that case we are collecting this year only at the 1 percent rate, whereas your committee estimated that the 2 percent rate would be in effect for this year.

Now turning to the estimates of the board of trustees——

Senator VANDENBERG. Excuse me. In other words, if the tax had not been frozen last year and had increased, the disparity between estimates and collections would be substantially larger?

Mr. COMPTON. Would be substantially larger, yes. They would not be double, however.

Senator VANDENBERG. No, they would not be double, but substantially larger.

Mr. COMPTON. Yes. Now taking again the estimates of the board of trustees, based on the low, medium, and high business conditions, we find that under the low estimate, by 1947 the revenues into the fund will be $2,312,000,000 as compared with the original estimate of $1,348,000,000. This is again at the higher rates of tax.

If the high conditions should prevail, the revenues put into the fund in 1947 will be $3,665,000,000 as compared with the original estimate of $1,348,000,000.

Senator VANDENBERG. Now, before you leave that table, I want to emphasize the figure in the estimate for 1944. This system was set up on a prospectus which contemplated the collection of $1,067,000,000 in 1944 at a 2 percent pay-roll tax. That is correct, is it not?

Mr. COMPTON. That is right, yes.

Senator VANDENBERG. Instead of that, if we stay at the present 1 percent pay-roll tax in 1944 we will collect more at 1 percent than was estimated to be collected at 2 percent.

Mr. COMPTON. I think you are right, but that is not shown by this table.

Senator VANDENBERG. No, but I am right, am I not?

Mr. COMPTON. Yes, you are right. I will have a table later on here which shows that point.

Senator VANDENBERG. In other words—and I do not think it can be overemphasized—if we freeze the pay-roll tax again next January we will still be producing into the reserve fund all of the revenue which was anticipated when the fund was set up and prophesied in respect to its finances in 1939 by the Senate Finance Committee?

Mr. COMPTON. Yes, sir. I might point out here, too, these figures of the board of trustees' estimates are based on the fiscal year ending in July. We made no effort to convert them to the calendar year. Therefore, this figure for 1944 in this table is practically at the 1 percent rate, because even if the rate should increase to 2 percent next year, the increase would only affect one-fourth of the collections for the 1944 fiscal year; in other words, the April, May, and June collections.

Senator TAFT. I rather assume the Social Security Board is putting 1944 at just about the same rate as 1943. They are not making any difference in it except as to the change in the tax for a portion of the year. They seem to have simply added that quarter approximately.

Mr. COMPTON. I think that is right. It appears to be right.

Senator VANDENBERG. Let us clearly understand this. The tax at 1 percent in 1944 would produce $1,400,000,000, would it not?

Mr. COMPTON. No, sir. I do not believe so.

Senator VANDENBERG. How much?

Mr. COMPTON. In 1944 I think it would produce $1,212,000,000.

Senator VANDENBERG. All right. In 1944 it would produce a billion and a quarter dollars, in round numbers?

Mr. Compton. Yes.

Senator Vandenberg. And it was only estimated originally that they would get $1,067,000,000 at 2 percent?

Mr. Compton. That is right, at the full 2 percent.

Senator Vandenberg. That is the point I make.

Mr. Compton. The original estimate contemplates that the 2-percent rate would become effective in 1943, so we would be collecting 2 percent throughout the entire fiscal year 1944.

Senator Johnson. Mr. Compton, I notice that you stop at the year 1947. If you should go on and add several other years in your estimate, when would you run into a year that, because of the heavier withdrawals for payments out, would begin to show a decrease?

Mr. Compton. That I do not know offhand. That would be shown by the charts which are in the board of trustees' report, I believe. The chart in that report would show where the line would cross if the tax rate continues to rise.

Senator Taft. In 1970, the figure given yesterday, but that was assuming that the rate went up. I suppose it would be sooner if the rate should not go up.

Senator Johnson. It seems to me that is a very important matter. While we have the ascending scale, that is one thing, but when you get into the descending scale, we do not know where that point is now.

Senator Taft. Except as this shows when you get beyond 5, certainly when you get beyond 10 years, you are talking about something that nobody can possibly foresee, certainly.

Senator Vandenberg. Furthermore, Senator Johnson, regardless of the finality, you will collect as much at 1 percent next year as those who made the tables you are talking about expected to get out of 2 percent next year. So freezing the tax at 1 percent next year would not affect their figure.

The Chairman. All right, Mr. Compton.

Mr. Compton. The other reason for the variation between those estimates in 1939 and the actual experience is the fact that benefits have fallen far behind the original estimate, which is shown by the following table:

Table 3.—*Old-age and survivors benefits*

	1939 Finance Committee estimates (calendar year)	Actual figures (calendar year)		
1940	$114,000,000	$36,000,000		
1941	298,000,000	88,000,000		
1942	431,000,000	130,000,000		
1943	583,000,000	[1] 171,000,000		
		Current estimates of board of trustees [2]		
		High	Medium	Low
1944	667,000,000	$205,000,000	$205,000,000	$205,000,000
1945	776,000,000	295,000,000	275,000,000	260,000,000
1946	905,000,000	585,000,000	425,000,000	320,000,000
1947	1,034,000,000	775,000,000	515,000,000	380,000,000

[1] Estimate on 8 months' basis (calendar year).
[2] Fiscal year ending 6 months earlier than calendar year.

To summarize this table, it shows in the left-hand column the original 1939 estimates of benefit payments out of this fund year by year, whereas the right-hand column shows the benefits on the same basis as in the other tables. At the present time, in 1943, we originally estimated that we would be paying $583,000,000 in benefits, while actually we are paying this year, estimated on the 8 months' basis, about $171,000,000.

Now, the board of trustees' report indicates that by 1947, if the worst business conditions prevail and benefits are the highest, we will be paying out benefits at the rate of $775,000,000 a year, whereas if the better business conditions prevail the benefit load will be only $380,000,000 a year, as compared with the original estimate of $1,034,000,000.

Senator TAFT. Does that take into account also the increased benefits that were voted in 1939?

Mr. COMPTON. I think it does.

Senator TAFT. So the actual estimate was still more out of line in the beginning?

Mr. COMPTON. Yes. Of course, there again you must bear in mind that the reports of the board of trustees were for the fiscal year ending July, and the original estimates were for the calendar year, and therefore the estimates run a little higher on the calendar year basis than on the fiscal year basis.

The board of trustees' figures contemplate continued increases in the tax rates.

What would happen to the fund if the 1 percent tax rate were continued for the next few years?

The board's estimates can be converted to the 1 percent rate to show expected results on the lower tax base.

Under the rate schedule of the present law, the 2 percent rate effective January 1, 1944, will be reflected in the revenues of the fourth quarter of the fiscal year 1944—April, May, and June collections—all of the fiscal year 1945, and the first three-quarters of the fiscal year 1946.

The 2½ percent rate effective January 1, 1946, will be reflected in revenues of the last quarter of the fiscal year 1946 and all of 1947.

The estimates of the board of trustees, changed to reflect the lower revenues that will be received if the tax rate of 1 percent is retained can be compared with the original estimates, as follows:

TABLE 4.—*Estimated progress of the fund, assuming tax rates of 1 percent on the employer and 1 percent on the employee continued through 1947*

	1939 Finance Committee estimates (calendar year)	Current estimates[1]	
		Low	High
1944	$3,122,000,000	$5,975,000,000	$5,975,000,000
1945	3,506,000,000	7,110,000,000	7,173,000,000
1946	3,907,000,000	7,629,000,000	8,351,000,000
1947	4,323,000,000	7,852,000,000	9,636,000,000

[1] Fiscal year ending 6 months earlier than calendar year.

The figures indicate that under the lowest estimate of the board of trustees the collections for 1944 will be $5,975,000,000.

Senator VANDENBERG. You mean the taxes collected?

Mr. COMPTON. I mean the size of the fund at the end of the fiscal year 1944 will be $5,975,000,000, whereas you expected a fund of $3,122,000,000 at the end of the calendar year. By 1947, if this rate is continued, according again to the low estimate, the fund will amount to $7,852,000,000 in July 1947, as compared with your original estimate of $4,325,000,000 in December 1947. If the high estimate should prevail, the fund in that year will be $9,636,000,000 without any further increase in tax.

Senator DAVIS. That is after the payment of all benefits?

Mr. COMPTON. That is after the payment of all benefits and cost of administration.

TABLE 5.—*Estimated net tax receipts (taxes less administration expense) assuming tax rates of 1 percent through 1947*

	1939 Finance Committee estimate (calendar year)	Current estimates[1]	
		Low	High
1944	$1,067,000,000	$1,212,000,000	$1,212,000,000
1945	1,078,000,000	1,275,000,000	1,323,000,000
1946	1,213,000,000	819,000,000	1,312,000,000
1947	1,348,000,000	902,000,000	1,448,000,000

[1] Fiscal year ending 6 months earlier than calendar year.

In table 5 the estimates indicate that if the 1 percent tax should prevail, by 1947, according to the lowest estimate, the revenue will be $902,000,000, and according to the highest estimate the revenue will be $1,448,000,000, at 1 percent, as compared with the original estimate of $1,348,000,000 at 2½ percent.

These figures demonstrate the probability that even with the tax rate frozen through the whole current 5-year period—up to July 31, 1947, the fund by that year will still be in the neighborhood of twice the amount your committee expected, in 1939, to accumulate at an increasing rate schedule.

Of course, these increases are accompanied by increased long-term liabilities. But the increase in liabilities is far less, proportionately, than the increase in revenue resulting from larger pay rolls.

The primary benefit formula in the present law is: 40 percent of the first $50 of average monthly wages, plus 10 percent of the next $200 of average monthly wages, plus 1 percent of the above per year of coverage.

Because of the weighting in favor of low-paid employees, higher wages (and higher taxes) do not mean proportionately higher benefits.

The present Social Security Act sets a measure of the adequacy of the old-age reserve by requiring a report "whenever the board of trustees is of the opinion that during the ensuing 5 fiscal years the trust fund will exceed three times the highest annual expenditures anticipated during that 5-fiscal-year period. * * *"

The current report of the board of trustees indicates that the fund will exceed three times the highest benefits in the current 5-year period.

The relationships indicated by the lowest and highest fund estimates presented by the board are as follows:

	Fund estimates	
	Low	High
Highest annual benefits	$775	$380
Reserve in 1947	11,346	14,651
Reserve times benefits	14	38

According to these estimates, if the tax is increased as scheduled the fund will exceed 14 times to 38 times the highest benefits of the 5-year period.

The adjustment of the board of trustees' estimates to reflect the progress of the reserve if the 1-percent rate is retained throughout the 5-year period indicates the following relationship:

	Fund estimates	
	Low	High
Highest annual benefits	$775	$380
Reserve in 1947	7,852	9,636
Reserve times benefits (1-percent tax)	10	25

According to these estimates the fund will exceed 10 to 25 times the highest benefits in the 5-year period even if the tax is frozen throughout this period at the present 1-percent rate.

These figures apparently eliminate any fear that further freezing of the tax rate will in any way endanger the fund.

The problem then resolves itself into the question, "Should this program be financed on a level-premium basis, with all paying the full value of the insurance regardless of the size of the fund—or should we operate on a pay-as-we-go basis, levying sufficient taxes to pay current outlays and to maintain a reasonable contingency reserve?"

All of the associations that I represent favor the pay-as-you-go principle, collecting enough taxes over the long run to pay current benefits.

We are doing neither at present. We are not paying the full value of the insurance on a level-premium basis—and we are accumulating a far greater reserve than is necessary to meet contingencies.

Is it perhaps time to decide on a permanent policy?

If this is to be done, the present measuring rod—whether the fund will exceed three times benefits in the next 5 years—is not satisfactory.

For this measure requires making, every year, an estimate of fund revenues 5 years hence and an estimate of benefit costs 5 years hence. The current report of the board of trustees demonstrates that this is impossible.

We need not be concerned with any danger of sudden bankruptcy of this fund. Congress can always act quickly to increase the tax if the fund becomes too low.

Therefore, would it not be better to measure the adequacy of the fund by some known amount, such as the benefits of the preceding year?

There are periods—such as at the close of this war—when it is possible for benefit costs to increase suddenly. Therefore, if a current figure were to be used as a fund measure, a liberal margin of safety should be provided.

Such a margin of safety would be provided by a fund equal to five times the benefits paid in the last preceding year.

As long as the fund is this large, there could be no chance of bankruptcy before Congress could act.

In suggesting such a change, I assume that the present 1-percent tax would be continued until benefits "catch up" with tax receipts and until the fund and the benefit cost are in the indicated relationship.

Such a change would terminate the annual controversy over tax rates.

It would establish a definite standard for a contingency reserve.

It would end the present hybrid—half cash, half reserve—basis.

It would mean a clear indication of congressional intent—to increase the taxes of the system when higher revenues are necessary to meet current costs.

Senator DANAHER. Mr. Compton, at what point do you think the benefits in fact would catch up with tax receipts and until the fund and benefit costs are in the relationship you suggest?

Mr. COMPTON. Well, let us see. The highest estimate of benefits shown so far by the board of trustees in the annual figures is for 1947. That is $775,000,000.

Senator DAVIS. What page is that on?

Mr. COMPTON. That is on page 4, (table 3) the high estimate in the middle column. The board of trustees' report also indicates, when converted to the 1 percent rate, that the taxes produced by the fund in 1947 will be $902,000,000. So that, assuming that those figures prevail and that the 1-percent rate is frozen for 5 years, then in 1947 our system will be producing $902,000,000 and will be paying out $775,000,000 in benefits. Our fund will be $7,852,000,000, which will still be 10 times the current year's benefits. Now, from there on the board of trustees has not undertaken to give specific annual figures.

Senator TAFT. Your suggestion is, if the benefits get up to the taxes you would increase the taxes?

Mr. COMPTON. Not exactly. It would be my idea we should determine on a proper relationship of the fund to the current benefit outlay, and then we should increase the taxes when that relationship is reached. In other words, if you want to say 10 times the benefits, then we reach that situation in 1947. If you want to say 5 times the benefits, then we reach that situation probably some years after that, perhaps 10 years from now, I don't know, but in either event the formula I think of 5 times last year will be better than the formula of 3 times the benefits of the next 5 years.

Senator VANDENBERG. I want to ask you one final question. Yesterday I put a letter in the record, without reading it, from Dr. Altmeyer, which he wrote me under date of August 27, 1943, in response to my questionnaire, from which I quote the following very significant and pregnant sentence:

> If no employer or employee contributions were collected in 1944, the assets on December 31, 1944, would amount to about $4,600,000,000, which is more than three times the estimated expenditures during the calendar year 1949.

Mr. COMPTON. That is right.

Senator VANDENBERG. Your figures concur with Dr. Altmeyer's estimate?

Mr. COMPTON. Yes.

Senator VANDENBERG. That so far as the basic problem that will confront them next year is concerned, far from doubling the tax, if we had no tax we would still meet the statutory rule for the reserve?

Mr. COMPTON. If you had no tax I think you could pay all the benefits for the next 5 years very easily.

Senator GUFFEY. Mr. Compton, I did not have the pleasure of hearing the entire paper, but I notice in the latter part of the paper you refer to the pay-as-you-go plan. Is that another of Mr. Ruml's plans?

Mr. COMPTON. No, sir.

The CHAIRMAN. Are there any further questions? If not, thank you, Mr. Compton, for you courtesy in appearing here.

Mr. COMPTON. Thank you.

The CHAIRMAN. Mr. Cliffe.

STATEMENT OF FRANK B. CLIFFE, ASSOCIATED INDUSTRIES OF NEW YORK STATE

The CHAIRMAN. Will you please give your connections, Mr. Cliffe?

Mr. CLIFFE. Representing the Associated Industries of New York State, and also expressing the viewpoint of the other State associations.

The CHAIRMAN. The same organizations represented by Mr. Compton?

Mr. CLIFFE. Yes, sir. I would like to deal with a little different phase of the problem.

The CHAIRMAN. You may proceed.

Mr. CLIFFE. Thank you, Senator. I would like to speak on some of the general principles that are involved, because I think sometimes we get lost in a maze of figures. Maybe you gentlemen do not, but the rest of us do, I know, and therefore I would like to state it as a very simple problem.

In the first place, I think it is recognized by all of us that the reason for collecting these taxes is to pay the benefits that are provided in the law, and over a period of years the two ought to be about the same. Over a short period, no; but over a long period certainly these taxes ought to be related to the benefits under this law, because this is a special law, as you well realize, it affects only a certain part of the population.

Senator GERRY. Mr. Chairman, is this gentleman speaking for the Treasury?

Mr. CLIFFE. No, sir.

Mr. VANDENBERG. No; he certainly is not speaking for the Treasury.

Mr. CLIFFE. I am speaking for Associated Industries of New York State.

Senator GERRY. Thank you.

Mr. CLIFFE. Now, the fact is that for a great many years the amount of benefits will grow year by year. While it has been pointed out that nobody can estimate even 5 years in advance accurately, you can see the difference between the 1939 estimates and the actual figures for 1943, you can see the difference between two sets of estimates for 1947. Yet the fact is we know that for maybe 100 years the trend of benefits will be up under this law, even if there is no change in the benefit schedule and no change in the people that are covered. Because you see the law gives an extra 1 percent for each year that a man is covered, therefore it would be 40 years from now before people would be retiring with 40 years of coverage, and it would be 30 years after that before the last one of those died. In other words, at the present time a great many old people are not eligible for any benefits. The proportion will gradually shift over the years and more and more old people will be eligible for benefits. It will be something in the neighborhood of 100 years before the increase will stop in the upward climb of the total benefit payments. There will be some wavers in that line, there will be times when the older people will not retire, they will stay on the pay rolls or go back to the pay rolls, as they are doing now. That general trend will be upward for a long period of time.

I would like to deal with this point that there has been a tremendous increase in wages during the war period, with an increase in the benefit liability. That is only partly true.

The formula, as you will realize, is loaded in favor of the low-paid individual. Let us take an extreme case. A man who earns $600 a year pays a certain amount of tax and gets a certain amount of benefits. A man who is paid $3,000 in wages pays five times as much tax and he gets only twice as much benefits, and that is as it should be, but the result is that during this war period people who normally earned $1,000 or $1,500 may have moved up to $2,000 or $2,500, or even gone over the $3,000 taxable limit, and they have not increased the benefit liability of the fund very much. So that this tremendous increase in pay rolls has not had the effect that is sometimes implied of creating a tremendous additional load.

Senator VANDENBERG. In other words, a tremendous increase in pay rolls has put a lot of velvet in the reserve.

Mr. CLIFFE. Exactly, a lot of unexpected velvet, and unobligated velvet, with no commitment against it.

Senator VANDENBERG. Yes, sir.

Mr. CLIFFE. Furthermore, these estimates of what the benefits will be are very difficult to make, for many reasons, and one of the most important is the age at which people will retire.

It happens that I am thoroughly familiar with pension systems of private companies, and unless the company says, "You must retire when you reach such and such an age," the fact is a very large share of employees keep on working for a year or 2 or 5 years after that time.

The same thing, of course, will affect the benefit payments under this law. If people keep on working after they reach 65, there will be no benefit payments to them for those years. They will continue to pay taxes, and there will be a double velvet to the fund for that very reason. It is natural that people do prefer to keep on working when they are well enough to do so.

The CHAIRMAN. It would not increase their benefits?

Mr. CLIFFE. Not appreciably.

The CHAIRMAN. It would not increase their benefits after 65 even if they keep on working?

Mr. CLIFFE. What actually happens, Mr. Chairman, is that they add to their benefits about 1 percent for each year they work, but they lose the benefits for 1 whole year, which is a loss of about 10 percent of the total that they would have received if they had retired. In other words, if a man retires at 65 he can look forward to about 10 years of pension. If he does not claim his pension until he is 66, he has lost one-tenth of the payment. So he loses 10 percent of the total payments and gains 1 percent for the year he stays on. There is, in other words, a very definite gain to the fund from a man keeping on working.

Senator DAVIS. He gains, too, during the year that he works.

Mr. CLIFFE. He gets pay instead of benefits, so he is ahead. He will do that for that very reason, if he is well enough to keep on working.

Now, there is no time that any of us will live to see when the payments will start to go down, the benefit payments. As I said a while ago, they will keep on going up for maybe 100 years. Now, with that fact in mind, it means that year by year the amount to be disbursed will be larger, and it is unthinkable to me that any future Congress would say, "Well, we have a $15,000,000,000 reserve, let us cut into it by quite a lot." You just will not use the reserve that way as long as you see mounting costs ahead. For that reason the reserve is very different from the reserve of a private insurance company, because the private insurance company does not know when customers will stop buying their policies and therefore they have to have enough to live on with the policy holders that they have on the books.

The national law will, of course, keep on bringing in new people all the time. The young people will keep on paying as long as there are young people, so the only condition under which this reserve can ever be drawn on, except for minor fluctuations, is if the whole country becomes old and there are no young people, or if the country is wiped out. Under neither of those condiitons are we going to make legislation that will fit the situation.

This matter of fluctuation is important. Maybe I can best describe it if we take the parallel of the young man—the parallel is subject to all the dangers of parallels, it does not go all the way—but take a young man who is just starting on his business career, it may be that over that entire business career he is going to spend $50,000. He does not have to have a very large income to spend $50,000 over 40 or 50 years. It would be foolish for him to say, "I must have $50,000 before I can start in business," or "before I can get married." He does not think of that at all. He says "I have a job, I need all the things that are normally needed, and I will have some income year by year," and the provident young man gets himself in a position where he will take care of the fluctuations that may happen to him. He may run into a year or two or three when his income is low, and he may run into periods when his expenses are a little high. So if he lays aside before he gets married $1,000 or $2,000, in other words, one or two years' income, he has done better than most of us did before we got married.

The Reserve Fund is in exactly the same condition. It will run into periods when collections will be a little low, as they will be during depression years, but the fund can never run into a period when the disbursements will be very high. That is, they will not jump above a forecast line, because you will have only so many people that are over 65. If you provided benefits for all of them in your forecast, you cannot possibly have more than that number for disbursements.

I would like to touch just a moment on this question of inflation. Dr. Altmeyer's letter, to which Senator Vandenberg referred a moment ago, pointed out that this fund should not be used, in his opinion, to play with economic conditions. In other words, if you hold it down now, maybe you would boost it up at some other time, and vice versa. The fact of the matter is, if you do increase the tax now and if that has an anti-inflationary effect on a certain group of the population, your high rate will still be in effect in 1946 or 1947, whenever we get into this post-war problem of readjustment, and to the extent that this boost in tax rate now lessens inflation it will have a deflation effect and it will be deflationary influence at the time when you certainly do not want to have that happen. In other words, if we get into a period of serious unemployment during the reconversion period, it is important that we should not have high fixed costs on either the pay roll of the worker who will be on short time, or on the pay roll of the employer who will be going through the financial difficulties of reconversion.

I think that I have only one more point that I should like to make, although I would be very glad to discuss any questions that you care to ask, and that is to come back to the amount of this reserve that would be reasonable.

To emphasize what Mr. Compton said, as long as your formula is to base action on somebody's guess as to what is going to happen in 1947, or some other future year, you are very much at the mercy of the digestion of the fellow that makes the estimate. It is such an uncertain thing and is so definitely recognized by the fact that their estimates are miles apart between what may be the high and what may be the low. You would be on a much sounder basis if you took actual figures that are known and that are compiled by the Treasury Department and submitted by the trustees of the fund. You know what you want, but the reserve must always be five times, or some other factor, the highest year or the latest year that you have had in benefit payments. If you do that you get entirely away from this guessing that is not only the cause of controversy but is also the cause of unsound action, as shown by the differences between the 1939 estimates, that were carefully compiled, using the best talent available, and the actual figures. So, I would urge upon you that you place the measure of your reserve on actual experience rather than on somebody's guess as to what may happen in the future.

Senator VANDENBERG. Whatever rule you use, you would still freeze the tax generally, would you not?

Mr. CLIFFE. Without a doubt, because on any measure that has been suggested, the balance is much larger than you can possibly spend on any set of circumstances over a long period of years.

The CHAIRMAN. Are there any questions. If not, thank you very much, Mr. Cliffe.

Mr. CLIFFE. Thank you, sir.

The CHAIRMAN. Is there any other witness who wishes to be heard on this question?

Senator DANAHER. Mr. Chairman, 1 minute, please.

The CHAIRMAN. Yes, sir.

Senator DANAHER. Not knowing during the early part of the summer that Senator Vandenberg was engaging Dr. Altmeyer in a series of correspondence that terminated in the letter that Senator Vandenberg inserted in the record on September 14, I framed a series of questions and I gave them to my secretary and asked that he communicate with the Bureau of Research and Statistics of the Social Security Board. Under date of July 10 there was submitted to me a series of figures which deal not only with old-age and survivors insurance but also with unemployment compensation. They may have special value in the sense that I sought to relate the statistics they have provided to the State of Connecticut as well as to the national scene, and since the State is a typical industrial State I ask permission to insert in the record at this point as an exhibit dealing with the problems of that industrial State the data that came to me from the Social Security Board. I have it here.

The CHAIRMAN. Very well, Senator, it may be put into the record.

(The data referred to are as follows:)

Old-age and survivors insurance:

Employee tax, 1 percent of annual wages up to $3,000.

Employer tax, 1 percent of taxable pay rolls (wages up to $3,000 per annum for each employee).

Total tax collections for old-age and survivors insurance through March 1943:	
United States	$4,249,729,212
Connecticut internal revenue district	[1] 93,296,915

[1] This amount does not necessarily represent taxes paid with respect to employment in the Connecticut district. For example, employers may make a return in the Connecticut district which includes taxes with respect to their establishments in other districts and, similarly, employers may file returns in other districts which include taxes with respect to their establishments in the Connecticut district.

Balance in the old-age and survivors insurance trust fund at end of March 1943	3,922,216,000
Total old-age and survivors insurance benefit payments certified through March 1943 (including monthly benefits and lump-sum payments):	
United States	337,563,982
Connecticut	[2] 6,765,000

[2] This figure is estimated on the basis of the amounts awarded to persons filing claims in Connecticut.

Unemployment Compensation:

Employee tax, none in Connecticut.

Employer tax, 0.3 percent of taxable pay rolls to Federal Government:

Nominal rate of 2.7 percent of taxable pay rolls to State.

Actual average State rate in 1942 was 2.1 percent, due to experience rating rate reductions for some employers.

Unemployment Compensation—Continued.

Balance in the unemployment trust fund as of end of March 1943:	
Total	$4,000,027,000
State accounts	3,657,373,000
Railroad Unemployment Insurance Act	342,650,000
Funds available for benefits as of March 31, 1943:[3]	
All States	3,660,435,122
Connecticut	96,582,807
Total unemployment benefits paid through March 1943:	
All States	2,068,224,071
Connecticut	28,564,590

[3] Includes balance in unemployment trust fund and amounts in State-clearing accounts and benefit-payment accounts.

The CHAIRMAN. That seems to complete the hearings on this question that we have before us.

I am presenting for the record three additional statements on this subject, as follows:

MEMORANDUM SUBMITTED ON BEHALF OF THE AMERICAN FEDERATION OF LABOR BY LEWIS HINES

STATUTORY INCREASE IN RATES FOR OLD-AGE AND SURVIVORS INSURANCE

The American Federation of Labor urges that the statutory increase in rate from 1 to 2 percent be allowed to become effective.

We are yet in the experimental stages of social insurance without enough actuarial or economic experience to be able to say what reserves are adequate or what may be expected as to volume of benefit claims.

National income for the current year will be twice what it was for 1939 and the work force has increased from 47,000,000 in 1939 to 64,800,000. In order to meet urgent demands for manpower we have called back many who are over 65, some of whom had been drawing old-age benefits. We have mobilized many women who previously had no industrial experience and have reached down for youths still of school age and many others have moved into insured industries. This vast work force is paying into old-age reserves and accumulating rights to benefits. The number covered and paying contributions has increased from 26,900,000 in 1939 to 37,000,000 to first quarter of this year.

We are in an emergency period with no experience to guide as to the reconversion months or the post-war years following. But this one thing we do know—the reserves should be adequate to take care of the after-work period of the workers whose production is now helping to win this war. All claims to benefits should be met promptly and the benefits payments should be more adequate.

We fail to see why there should be alarm because the reserves have grown more rapidly than expected for they parallel increased benefit rights. After the war benefit payments may be expected to increase sharply as those over 65 again withdraw from the labor market. We may also expect a sharp increase in survivor's benefits. These wartime years may be expected to show trends contrary to normal. Because the trend now is away from drawing benefits and toward employment which offers larger income, is not a sound cause for interfering with insurance schedules planned to provide reserves for long-term liabilities. Insurance cannot shift its rates for curernt fluctuations. It must be ready to meet claims and protect workers against public or private charity who have successfully maintained themselves before work-power waned. The years immediately ahead will not be normal years and our major concern is to have reserves adequate. Adequate old-age reserves, even if they prove to be too adequate, will in no way interfere with financing the war or conflict with the program of inflation control. To the contrary: Reserves are invested in Government bonds which at once provide credit, and doubling the rate would invest another billion where it could not contribute to inflation. Congress and the administration are looking for more reserve with which to pay war expenses. Neither will this damage employers. For the present it will mean their taxes will be in this form, and if reserves prove too large, their payments will be less at some future time perhaps in the downward curve of the business cycle.

As the most constructive way by which to add five or six billions to reserves invested in Government, the American Federation of Labor urges the enactment of the Wagner-Murray-Dingell bill which would provide more adequate protection of the Nation's work force with more adequate benefits. By providing the funds and increasing the coverage and nationalizing the system, the workers of this country can have an effective insurance system, providing income for those major emergencies that prevent employment. Sickness has brought many a family to bankruptcy and dependency. The majority of families cannot manage many weeks without having to ask for assistance. Workers cannot save up for old age nor can they afford individual insurance. This bill also provides benefits rights for those in the armed forces, so that they shall not be dependent upon good will or charity.

Social insurance into which individuals pay regularly and thus accumulate rights is the way that the great masses of population can be assured economic independence without which there can be neither political or social independence.

We hope to have a free economy after the war but that is impossible unless workers also are free. There is nothing more demoralizing to personalities and individual freedom than dependence on public or private assistance or charity. Such abnormal relationships between the Government and large masses of citizens has ever been a menace to free institutions.

We urge the statutory increase in rate in January 1944 unless the Wagner-Murray-Dingell bill is previously enacted.

CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D. C., October 16, 1943.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR GEORGE: On behalf of President Murray, I wish to place the Congress of Industrial Organizations on record as supporting the increase in the present social-security tax for old-age and survivors insurance from 1 to 2 percent in January 1944.

It seems to us wise that this automatic increase take effect—

1. That we shall avoid the risk of the funds in the future being inadequate to support the claims to be made against them.

2. That we may avoid any demonstration at this time of a congressional lack of interest in adequate and sound social security.

3. That the increase of national income and widespread employment make this a particularly suitable time to call upon the public to support this increased contribution to the funds.

I would urge upon you too that there is no merit to the claim that the current use for social-security funds is a suberfuge and it is undermining the stability of the social-security system. The fact is, of course, as you know, that the trust funds accumulated even though invested in bonds are quite as good as the savings bonds which all Americans have been purchasing in large amounts.

Respectfully yours,

J. RAYMOND WALSH.

INDIANAPOLIS, IND., *October 14, 1943.*

Senator WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

We understand Finance Committee today is holding hearings on proposals to further postpone schedule doubling of old-age and survivors insurance program taxes next January 1. Therefore, Indiana State Chamber of Commerce respectfully requests your committee include this telegram in proceedings and consider its contents. Indiana Chamber is now conducting poll of membership on question and large preliminary returns show 95.3 percent of members favor legislation setting aside scheduled increase and continuing present rates in effect. Many employers also report their employees oppose increase. Our reasons for position include:

1. With total receipts including interest running six and nine-tenths times total expenditures including administration in last fiscal year and present reserve far above prescribed three times highest prospective annual benefits in ensuing 5 years. Present 1-percent rates are more than adequate for current needs. Rate doubling would increase tax on Indiana employees $10,000,000 and on employers same amount annually.

2. Increase on top of present withholding tax would create further agitation for boosting of employees' take-home pay and to that extent be inflationary.

3. Building huge reserves creates false impression of cash on hand which in turn invites ill-considered increasing of future benefit obligations to be met when Nation is trying to work its way out of enormous war debts.

4. All taxes country can bear should be raised, spent directly for war, thus saving interest that otherwise would be paid on taxes raised for social security and spent for war.

5. With entire social-security program probably coming up for consideration, questions of increasing social-security taxes should await exploration of whole field.

Congress in 1939 and 1942 expressed belief in modified pay-as-you-go policy and facts show this is more justified now than then. We suggest as specifically recommended by more than 90 percent of our membership you set aside all increases in tax rates until board of trustees of trust fund report to Congress that during the preceding year expenditures for benefits were greater than tax receipts and at the same time recommend to Congress action be taken in regard to pay-roll taxes. This would eliminate yearly debate in Congress on this question, but would assure consideration in ample time to protect fund solvency.

CLARENCE A. JACKSON,
Executive Vice President.

(Whereupon, at 11:10 a. m., the hearing was concluded.)

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