

# SOCIAL SECURITY FINANCING

## HEARINGS

BEFORE THE

### SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

### COMMITTEE ON FINANCE

### UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

#### S. 2459

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO ALLOW AN INDIVIDUAL A CREDIT AGAINST TAX EQUAL TO 15 PERCENT OF THE SOCIAL SECURITY TAXES PAID BY THAT INDIVIDUAL DURING THE TAXABLE YEAR

#### S. 2501

A BILL TO AMEND THE SOCIAL SECURITY ACT AND THE INTERNAL REVENUE CODE OF 1954 TO PROVIDE FOR FEDERAL PARTICIPATION IN THE COSTS OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM AND THE MEDICARE PROGRAM, WITH APPROPRIATE REDUCTIONS IN SOCIAL SECURITY TAXES TO REFLECT SUCH PARTICIPATION, AND WITH A SUBSTANTIAL INCREASE IN THE AMOUNT OF AN INDIVIDUAL'S ANNUAL EARNINGS WHICH MAY BE COUNTED FOR BENEFIT AND TAX PURPOSES

#### S. 2503

A BILL TO AMEND THE SOCIAL SECURITY ACT AND THE INTERNAL REVENUE CODE OF 1954 TO PROVIDE THAT DISABILITY INSURANCE BENEFITS AND THE MEDICARE PROGRAM SHALL BE FINANCED FROM GENERAL REVENUES (PURSUANT TO ANNUAL AUTHORIZATIONS) RATHER THAN THROUGH THE IMPOSITION OF EMPLOYMENT AND SELF-EMPLOYMENT TAXES AS AT PRESENT, AND TO ADJUST THE RATES OF SUCH TAXES FOR PURPOSES OF FINANCING THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM) ACCORDINGLY

#### S. 2607

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO PROVIDE A REFUND OR CREDIT OF 10 PERCENT

OF THE EMPLOYER AND SELF-EMPLOYED SOCIAL SECURITY TAXES PAID BY A TAXPAYER

#### S. 2741

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO ALLOW A REFUNDABLE CREDIT AGAINST INCOME TAX LIABILITY FOR INCREASES IN SOCIAL SECURITY TAXES RESULTING FROM INCREASES IN SOCIAL SECURITY TAX RATES EFFECTIVE AFTER DECEMBER 31, 1977

#### S. 2746

A BILL TO MAINTAIN IN EFFECT FOR 1978 AND SUCCEEDING YEARS THE SOCIAL SECURITY TAX RATE WHICH WAS IN EFFECT FOR 1977, AND TO PROVIDE THAT THERE SHALL BE PAID INTO THE SOCIAL SECURITY TRUST FUNDS FROM GENERAL REVENUES AN AMOUNT EQUAL TO THE DIFFERENCE IN SOCIAL SECURITY TAXES ACTUALLY RECEIVED BY THEM AND THE AMOUNT WHICH WOULD HAVE BEEN RECEIVED BY THEM IF THE SOCIAL SECURITY TAX RATES PRESCRIBED BY EXISTING LAW FOR SUCH YEARS HAD CONTINUED IN EFFECT

#### S. 2808

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO ALLOW AN INDIVIDUAL A CREDIT AGAINST TAX EQUAL TO 20 PERCENT OF THE SOCIAL SECURITY TAXES PAID BY THAT INDIVIDUAL DURING THE TAXABLE YEAR AND FOR OTHER PURPOSES

#### S. 2812

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO PROVIDE A CREDIT AGAINST INCOME TAX FOR SOCIAL SECURITY TAXES PAID BY AN INDIVIDUAL

APRIL 5 AND 6, 1978

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

4  
S361-591

**COMMITTEE ON FINANCE**

**RUSSELL B. LONG**, Louisiana, *Chairman*

**HERMAN E. TALMADGE**, Georgia  
**ABRAHAM RIBICOFF**, Connecticut  
**HARRY F. BYRD, Jr.**, Virginia  
**GAYLORD NELSON**, Wisconsin  
**MIKE GRAVEL**, Alaska  
**LLOYD BENTSEN**, Texas  
**WILLIAM D. HATHAWAY**, Maine  
**FLOYD K. HASKELL**, Colorado  
**SPARK M. MATSUNAGA**, Hawaii  
**DANIEL PATRICK MOYNIHAN**, New York

**CARL T. CURTIS**, Nebraska  
**CLIFFORD P. HANSEN**, Wyoming  
**ROBERT DOLE**, Kansas  
**BOB PACKWOOD**, Oregon  
**WILLIAM V. ROTH, Jr.**, Delaware  
**PAUL LAXALT**, Nevada  
**JOHN C. DANFORTH**, Missouri

**MICHAEL STERN**, *Staff Director*

**GEORGE W. PRITTS, Jr.**, *Minority Counsel*

---

**SUBCOMMITTEE ON SOCIAL SECURITY**

**GAYLORD NELSON**, Wisconsin, *Chairman*

**ABRAHAM RIBICOFF**, Connecticut  
**FLOYD K. HASKELL**, Colorado

**PAUL LAXALT**, Nevada  
**JOHN C. DANFORTH**, Missouri

# CONTENTS

## ADMINISTRATION WITNESSES

	Page
Blumenthal, Hon. W. Michael, Secretary of the Treasury.....	51
Bosworth, Barry P., Director, Council on Wage and Price Stability.....	221
Rivlin, Alice M., Director, Congressional Budget Office; accompanied by June O'Neill, Human Resources Costing Unit; and William J. Beeman, Assistant Director for Fiscal Analysis.....	192

## PUBLIC WITNESSES

Ball, Robert, former Commissioner of Social Security and senior scholar, Institute of Medicine, National Academy of Sciences.....	280
Conference on Economic Progress, Leon Keyserling, president, and former Chairman, Council of Economic Advisers.....	140
Keyserling, Leon, president, Conference on Economic Progress, and former Chairman, Council of Economic Advisers.....	140
Myers, Robert J., professor of actuarial science, Temple University, and former Chief Actuary, Social Security Administration.....	253

## COMMUNICATIONS

<b>AFL-CIO:</b>	
Andrew J. Blemler, director of legislation.....	275
Bert Seidman, director, department of social security.....	280
Executive council.....	284
American Council of Life Insurance, J. B. McClintock.....	318
Anderson, Ronald, on behalf of the Social Security Citizens' Foundation...	285
Bailly, Charles E., Broeker Hendrickson & Co.....	316
Beretel, Steve.....	292
Blemler, Andrew J., director of legislation, AFL-CIO.....	275
Brister, Thomas S., Financial Strategy Co.....	318
Broeker Hendrickson & Co., Charles E. Bailly.....	316
Business Roundtable.....	306
Cianbro, Corp., William J. Weck, vice president, finance.....	316
Coan, F. E.....	316
Connery, Vincent L., national president, National Treasury Employees Union.....	807
Cramer Trusts, William W. Paul.....	312
Diamond, Peter A., professor of economics, Massachusetts Institute of Technology.....	298
Financial Strategy Co., Thomas S. Brister.....	318
Goodman, Richard W., vice president, governmental and consumer affairs, C. H. Stuart, Inc.....	312
Health Insurance Association of America, presented by Gerald S. Parker...	321
Krieger-Campbell, Inc., Royal G. Krieger, president, Richard M. Campbell, vice president.....	305
McClintock, J. B., for the American Council of Life Insurance.....	318
Machinery & Allied Products Institute, Charles Stewart, president.....	312
National Grange, John W. Scott, master.....	317
National Small Business Association.....	293
National Treasury Employees Union, Vincent L. Connery, national president.....	307
Parker, Gerald S., Health Insurance Association of America.....	321
Scott, John W., master, National Grange.....	317
Seidman, Bert, director, department of social security, AFL-CIO.....	280

IV

	<b>Page</b>
Sieffert, James A.....	296
Social Security Citizens' Foundation, Ronald Anderson.....	285
Stewart, Charles, president, Machinery & Allied Products Institute.....	312
Van Horn, Dean.....	293
Weck, William J., vice president, finance, Cianbro Corp.....	316

**ADDITIONAL INFORMATION**

Committee press release.....	1
Text of the bills S. 2459, S. 2501, S. 2607, S. 2741, S. 2746, S. 2808, and S. 2812.....	3
Statements of:	
Senator Floyd K. Haskell.....	47
Senator Russell B. Long.....	50
Treasury Department analysis of impact of various social security financing proposals by income class.....	77
CBO tables.....	208
Supplementary tables on income distribution effects.....	215

**APPENDIXES**

Appendix A.—Communications received by the committee expressing an interest in these hearings.....	275
Appendix B.—Financing of the social security programs.....	329

# SOCIAL SECURITY FINANCING

WEDNESDAY, APRIL 5, 1978

U.S. SENATE,  
SUBCOMMITTEE ON SOCIAL SECURITY OF THE  
COMMITTEE ON FINANCE,  
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m. in room 2221, Dirksen Senate Office Building, Hon. Gaylord Nelson (chairman of the subcommittee) presiding.

Present: Senators Nelson, Long, Haskell, Byrd, Jr., of Virginia, Danforth, Curtis, Dole, and Roth, Jr.

[The committee press release announcing these hearings and the bills S. 2459, S. 2501, S. 2503, S. 2607, S. 2741, S. 2746, S. 2808 and S. 2812 follow:]

## FINANCE COMMITTEE ON SOCIAL SECURITY SETS HEARING ON FINANCING OF PROGRAM

Senator Gaylord Nelson (D., Wis.), Chairman of the Subcommittee on Social Security of the Finance Committee, today announced that hearings will be held on Wednesday, April 5, and Thursday, April 6, 1978, on the subject of social security financing. The hearings will begin at 10:00 A.M. and will be held in Room 2221 Dirksen Senate Office Building.

Senator Nelson noted that legislation enacted by Congress at the end of last year has alleviated concern over the ability of the social security program to meet its obligations well past the turn of the century. Last year's law made certain changes in the benefit structure and provided sufficient additional taxes to fund the modified program through approximately 2025. He pointed out, however, that there is continuing widespread concern over the level of payroll taxes that was needed to achieve this objective of providing adequate funds for the social security program. The purpose of these hearings is to receive testimony on the alternatives that may be available to finance the program which would permit a reduction in the level of payroll taxation. Senator Nelson noted that certain proposals to meet this objective have already been advanced including the bill S. 2503, which he has introduced, to fund the disability insurance and hospital insurance programs from general revenues and the bill S. 2501, introduced by Senator Hathaway, to provide a general revenue contribution towards the cost of the old-age, survivors, disability and health insurance programs.

*Requests to Testify.*—The Chairman advised that witnesses desiring to testify during this hearing must submit their requests to Michael Stern, Staff Director, Committee on Finance, 2227 Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, March 24, 1978.

*Consolidated Testimony.*—Senator Nelson also stated that the Subcommittee urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. The Chairman urged very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

**Legislative Reorganization Act.**—Senator Nelson stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress “to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument.”

Witnesses scheduled to testify must comply with the following rules:

1. A copy of the statement must be filed by the close of business two days before the day the witness is scheduled to testify.
2. All witnesses must include with their written statement a summary of the principal points included in the statement.
3. The written statements must be typed on letter size paper (not legal size) and at least 75 copies must be submitted by noon the day before the witness is scheduled to testify.
4. Witnesses are not to read their written statements to the Subcommittee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.
5. Not more than ten minutes will be allowed for oral presentations.

**Written Testimony.**—The Chairman stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by Friday, April 21, 1978, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510.

95TH CONGRESS  
2D SESSION

# S. 2459

---

## IN THE SENATE OF THE UNITED STATES

JANUARY 31 (legislative day, JANUARY 30), 1978

Mr. EAGLETON introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To amend the Internal Revenue Code of 1954 to allow an individual a credit against tax equal to 15 percent of the social security taxes paid by that individual during the taxable year.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*  
3       That (a) subpart A of part IV of subchapter A of chapter  
4       1 of the Internal Revenue Code of 1954 (relating to credits  
5       allowable) is amended by adding at the end thereof the  
6       following new section:

7       “SEC. 44C. SOCIAL SECURITY TAX CREDIT.

8       “(a) IN GENERAL.—In the case of an individual there  
9       shall be allowed as a credit against the tax imposed by this

1 chapter for the taxable year an amount equal to 15 percent  
2 of any social security tax paid by that individual during the  
3 taxable year.

4 “(b) SOCIAL SECURITY TAX.—

5 “(1) IN GENERAL.—For purposes of this section,  
6 the term ‘social security tax’ means any tax imposed by  
7 section 1401, 3101, 3201, or 3211 (but only to the  
8 extent attributable to taxes imposed by section 3101).

9 “(2) STATE AND LOCAL GOVERNMENT EMPLOY-  
10 EES.—For purposes of paragraph (1), any tax imposed  
11 on an employee of any State or political subdivision  
12 thereof—

13 “(A) which is paid by the State to the Federal  
14 Government under an agreement under section 218  
15 of the Social Security Act, and

16 “(B) which, under such agreement, is equiva-  
17 lent to the tax imposed by section 3101,  
18 shall be treated as a tax imposed by section 3101.

19 “(c) LIMITATION.—The credit allowed by subsection  
20 (a) shall not exceed the tax imposed by this chapter for  
21 the taxable year, reduced by the sum of the credits allow-  
22 able under a section of this part having a lower number  
23 or letter designation than this section, other than the credits  
24 allowable by sections 31, 39, and 43.



1       “(d) **REGULATIONS.**—The Secretary shall prescribe  
2 such regulations as may be necessary to carry out the pro-  
3 visions of this section.”.

4       (b) The table of sections for such subpart is amended  
5 by inserting after the item relating to section 44B the fol-  
6 lowing new item:

      “Sec. 44C. Social security tax credit.”.

7       **SEC. 2.** The amendments made by this Act shall apply  
8 to taxable years beginning after December 31, 1977, with  
9 respect to any social security tax (within the meaning of  
10 section 44C(b)) paid after September 30, 1978.

95TH CONGRESS  
2D SESSION

# S. 2501

---

## IN THE SENATE OF THE UNITED STATES

FEBRUARY 6 (legislative day, JANUARY 30), 1978

Mr. HATHAWAY (for himself, Mr. RIEGLE, and Mr. EAGLETON) introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To amend the Social Security Act and the Internal Revenue Code of 1954 to provide for Federal participation in the costs of the old-age, survivors, and disability insurance program and the medicare program, with appropriate reductions in social security taxes to reflect such participation, and with a substantial increase in the amount of an individual's annual earnings which may be counted for benefit and tax purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 REDUCTIONS IN SOCIAL SECURITY TAXES

4 SECTION 1. (a) (1) Section 1401 (a) of the Internal  
5 Revenue Code of 1954 (relating to rate of tax on self-  
6 employment income for purposes of old-age, survivors, and

1 disability insurance) is amended by striking out para-  
2 graphs (2) through (7) and inserting in lieu thereof the  
3 following:

4           “(2) in the case of any taxable year beginning after  
5       December 31, 1977, and before January 1, 1979, the  
6       tax shall be equal to 7.10 percent of the amount of the  
7       self-employment income for such taxable year;

8           “(3) in the case of any taxable year beginning after  
9       December 31, 1978, and before January 1, 1981, the  
10      tax shall be equal to 4.80 percent of the amount of the  
11      self-employment income for such taxable year;

12          “(4) in the case of any taxable year beginning after  
13      December 31, 1980, and before January 1, 1985, the  
14      tax shall be equal to 4.875 percent of the amount of the  
15      self-employment income for such taxable year;

16          “(5) in the case of any taxable year beginning after  
17      December 31, 1984, and before January 1, 1990, the  
18      tax shall be equal to 5.275 percent of the amount of  
19      the self-employment income for such taxable year;

20          “(6) in the case of any taxable year beginning after  
21      December 31, 1989, and before January 1, 2010, the  
22      tax shall be equal to 6.00 percent of the amount of the  
23      self-employment income for such taxable year; and

24          “(7) in the case of any taxable year beginning

1 after December 31, 2009, the tax shall be equal to  
2 7.20 percent of the amount of the self-employment in-  
3 come for such taxable year.”.

4 (2) Section 3101 (a) of such Code (relating to rate of  
5 tax on employees for purposes of old-age, survivors, and dis-  
6 ability insurance) is amended by striking out paragraphs  
7 (2) through (7) and inserting in lieu thereof the following:

8 “(2) with respect to wages received during the  
9 calendar year 1978, the rate shall be 5.05 percent;

10 “(3) with respect to wages received during the  
11 calendar years 1979 and 1980, the rate shall be 3.20  
12 percent;

13 “(4) with respect to wages received during the  
14 calendar years 1981 through 1984, the rate shall be 3.25  
15 percent;

16 “(5) with respect to wages received during the  
17 calendar years 1985 through 1989, the rate shall be  
18 3.55 percent;

19 “(6) with respect to wages received during the  
20 calendar years 1990 through 2009, the rate shall be 4.00  
21 percent; and

22 “(7) with respect to wages received after Decem-  
23 ber 31, 2009, the rate shall be 4.80 percent.”.

24 (3) Section 3111 (a) of such Code (relating to rate of

1 tax on employers for purposes of old-age, survivors, and dis-  
2 ability insurance) is amended by striking out paragraphs  
3 (2) through (7) and inserting in lieu thereof the following:

4 " (2) with respect to wages paid during the cal-  
5 endar year 1978, the rate shall be 5.05 percent;

6 " (3) with respect to wages paid during the calen-  
7 dar years 1979 and 1980, the rate shall be 3.20 percent;

8 " (4) with respect to wages paid during the calen-  
9 dar years 1981 through 1984, the rate shall be 3.25  
10 percent;

11 " (5) with respect to wages paid during the cal-  
12 endar years 1985 through 1989, the rate shall be 3.55  
13 percent;

14 " (6) with respect to wages paid during the cal-  
15 endar years 1990 through 2009, the rate shall be 4.00  
16 percent; and

17 " (7) with respect to wages paid after December 31,  
18 2009, the rate shall be 4.80."

19 (b) (1) Section 1401 (b) of such Code (relating to rate  
20 of tax on self-employment income for purposes of hospital  
21 insurance) is amended by striking out paragraphs (2)  
22 through (6) and inserting in lieu thereof the following:

23 " (2) in the case of any taxable year beginning  
24 after December 31, 1977, and before January 1, 1979,

1 the tax shall be equal to 1.00 percent of the amount of  
2 the self-employment income for such taxable year;

3 “(3) in the case of any taxable year beginning  
4 after December 31, 1978, and before January 1, 1981,  
5 the tax shall be equal to 0.70 percent of the amount  
6 of the self-employment income for such taxable year;

7 “(4) in the case of any taxable year; beginning  
8 after December 31, 1980, and before January 1, 1985,  
9 the tax shall be equal to 0.75 percent of the amount  
10 of the self-employment income for such taxable year; and

11 “(5) in the case of any taxable year beginning  
12 after December 31, 1984, the tax shall be equal to  
13 0.90 percent of the amount of the self-employment in-  
14 come for such taxable year.”.

15 (2) Section 3101 (b) of such Code (relating to rate  
16 of tax on employees for purposes of hospital insurance) is  
17 amended by striking out paragraphs (2) through (6) and  
18 inserting in lieu thereof the following:

19 “(2) with respect to wages received during the  
20 calendar year 1978, the rate shall be 1.00 percent;

21 “(3) with respect to wages received during the  
22 calendar years 1979 and 1980, the rate shall be 0.70  
23 percent;

24 “(4) with respect to wages received during the

1 calendar years 1981 through 1984, the rate shall be  
2 0.75 percent; and

3 “(5) with respect to wages received after Decem-  
4 ber 31, 1984, the rate shall be 0.90 percent.”.

5 (3) Section 3111 (b) of such Code (relating to rate of  
6 tax on employers for purposes of hospital insurance) is  
7 amended by striking out paragraphs (2) through (6) and  
8 inserting in lieu thereof the following:

9 “(2) with respect to wages paid during the cal-  
10 endar year 1982, the rate shall be 1.00 percent;

11 “(3) with respect to wages paid during the cal-  
12 endar years 1979 and 1980, the rate shall be 0.70 per-  
13 cent;

14 “(4) with respect to wages paid during the cal-  
15 endar years 1981 through 1984, the rate shall be 0.75  
16 percent; and

17 “(5) with respect to wages paid after December 31,  
18 1984, the rate shall be 0.90 percent.”.

19 (c) (1) Section 201 (b) (1) of the Social Security Act  
20 is amended by striking out clauses (G) through (K) and  
21 inserting in lieu thereof the following: “(G) 1.55 per  
22 centum of the wages (as so defined) paid after December 31,  
23 1977, and before January 1, 1979, and so reported, (H)  
24 1.00 per centum of the wages (as so defined) paid after  
25 December 31, 1978, and before January 1, 1981, and so

1 reported, (I) 0.96 per centum of the wages (as so defined)  
2 paid after December 31, 1980, and before January 1, 1983,  
3 and so reported, (J) 1.01 per centum of the wages (as so  
4 defined) paid after December 31, 1982, and before Janu-  
5 ary 1, 1985, and so reported, (K) 1.18 per centum of the  
6 wages (as so defined) paid after December 31, 1989, and  
7 before January 1, 1990, and so reported, and (L) 1.80 per  
8 centum of the wages (as so defined) paid after December 31,  
9 1989, and so reported.”.

10 (2) Section 201 (b) (2) of such Act is amended by  
11 striking out clauses (G) through (K) and inserting in lieu  
12 thereof the following: “(G) 1.090 per centum of the amount  
13 of self-employment income (as so defined) so reported for  
14 any taxable year beginning after December 31, 1977, and  
15 before January 1, 1979, (II) 0.750 per centum of the  
16 amount of self-employment income (as so defined) so  
17 reported for any taxable year beginning after December 31,  
18 1978, and before January 1, 1981, (I) 0.720 per centum  
19 of the amount of self-employment income (as so defined) so  
20 reported for any taxable year beginning after December 31,  
21 1980, and before January 1, 1983, (J) 0.7575 per centum  
22 of the amount of self-employment income (as so defined)  
23 so reported for any taxable year beginning after December  
24 31, 1982, and before January 1, 1985, (K) 0.885 per  
25 centum of the amount of self-employment income (as so



1 defined) so reported for any taxable year beginning after  
2 December 31, 1984, and before January 1, 1990, and (L)  
3 1.350 per centum of the amount of self-employment income  
4 (as so defined) so reported for any taxable year beginning  
5 after December 31, 1989.”

6 (d) The amendments made by this section shall apply in  
7 the case of taxes imposed with respect to self-employment  
8 income for taxable years beginning after December 31, 1978,  
9 and with respect to wages paid or received during calendar  
10 years after 1978.

11 FEDERAL PARTICIPATION IN COST OF OLD-AGE, SURVIVORS,  
12 AND DISABILITY INSURANCE PROGRAM

13 SEC. 2. (a) In order to provide that one-third of the  
14 costs of the old-age, survivors, and disability insurance pro-  
15 gram under title II of the Social Security Act, and one-third  
16 of the costs of the hospital insurance program under part A  
17 of title XVIII of such Act, shall hereafter be borne by the  
18 Federal Government (with the remainder of such costs being  
19 financed from taxes imposed (as at present) on employees,  
20 employers, and the self-employed but at substantially reduced  
21 rates as provided by section 1 of this Act) —

22 (1) section 201 (a) of the Social Security Act is  
23 amended by striking out “100 per centum” in the mat-  
24 ter preceding paragraph (1) and inserting in lieu  
25 thereof “150 per centum”;

1           (2) Section 201 (b) of such Act is amended by  
2 striking out "100 per centum" in the matter preceding  
3 paragraph (1) and inserting in lieu thereof "150 per  
4 centum"; and

5           (3) section 1817 (a) of such Act is amended by  
6 striking out "100 per centum" in the matter preceding  
7 paragraph (1) and inserting in lieu thereof "150 per  
8 centum".

9           (b) The amendments made by subsection (a) shall  
10 apply in the case of taxes imposed with respect to self-  
11 employment income for taxable years beginning after Decem-  
12 ber 31, 1978, and wages paid or received during calendar  
13 years after 1978.

14 INCREASE IN CEILING ON AMOUNT OF ANNUAL EARNINGS  
15           COUNTED FOR BENEFIT AND TAX PURPOSES

16           SEC. 3. (a) Section 230 (c) of the Social Security Act  
17 is amended—

18           (1) by striking out "and (2)" and all that fol-  
19 lows in the first sentence and inserting in lieu thereof  
20 "and (2) the 'contribution and benefit base' with re-  
21 spect to remuneration paid (and taxable years begin-  
22 ning) in 1979 shall be \$100,000.";

23           (2) by striking out "in 1982 and subsequent years,  
24 the dollar amounts" in the second sentence and inserting

1 in lieu thereof "in 1980 and subsequent years, the dollar  
2 amount"; and

3 (3) by striking out "the years involved" in the  
4 second sentence and inserting in lieu thereof "the year  
5 1979".

6 (b) The amendments made by subsection (a) shall  
7 apply with respect to remuneration paid (and self-employ-  
8 ment income for taxable years beginning) after December  
9 1978.

10 (c) As soon as practicable after the date of the enact-  
11 ment of this Act, the Secretary of Health, Education, and  
12 Welfare, in consultation with the Secretary of the Treasury,  
13 shall prepare and submit to the House of Representatives and  
14 the Senate a draft of any technical, conforming, or other  
15 changes in the Social Security Act, the Internal Revenue  
16 Code of 1954, and other laws which may be necessary to  
17 take account of or reflect the amendments made by subsec-  
18 tion (a).

**S. 2503**

---

**IN THE SENATE OF THE UNITED STATES**

FEBRUARY 6 (legislative day, JANUARY 30), 1978

Mr. NELSON (for himself, Mr. EAGLETON, Mr. DANFORTH, Mr. RIBICOFF, Mr. BENTSEN, Mr. HATHAWAY, Mr. JAVITS, Mr. HASKELL, Mr. MOYNIHAN, Mr. MATSUNAGA, Mr. CHILES, Mr. HOLLINGS, Mr. HART, Mr. HUDDLESTON, and Mr. HEINZ) introduced the following bill; which was read twice and referred to the Committee on Finance

---

**A BILL**

To amend the Social Security Act and the Internal Revenue Code of 1954 to provide that disability insurance benefits and the medicare program shall be financed from general revenues (pursuant to annual authorizations) rather than through the imposition of employment and self-employment taxes as at present, and to adjust the rates of such taxes (for purposes of financing the old-age, survivors, and disability insurance program) accordingly.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That this Act may be cited as the "Social Security Refinanc-
- 4 ing Act".
- 5 SEC. 2. (a) Section 3101 of the Internal Revenue Code

1 of 1954 (relating to rate of tax on employees under Federal  
2 Insurance Contributions Act) is amended to read as follows:

3 **"SEC. 3101. RATE OF TAX.**

4 "In addition to other taxes, there is hereby imposed on  
5 the income of every individual a tax equal to the following  
6 percentages of the wages (as defined in section 3121 (a) )  
7 received by him with respect to employment (as defined in  
8 section 3121 (b) )—

9 "(1) with respect to wages received during the  
10 calendar years 1979 and 1980, the rate shall be 4.330  
11 percent;

12 "(2) with respect to wages received during the cal-  
13 endar years 1981 through 2001, the rate shall be 4.400  
14 percent;

15 "(3) with respect to wages received during the  
16 calendar years 2002 through 2010, the rate shall be  
17 4.600 percent;

18 "(4) with respect to wages received during the  
19 calendar years 2011 through 2023, the rate shall be  
20 5.400 percent; and

21 "(5) with respect to wages received after Decem-  
22 ber 31, 2020, the rate shall be 6.800 percent."

23 (b) Section 3111 of such Code (relating to rate of tax  
24 on employers under Federal Insurance Contributions Act)  
25 is amended to read as follows:

1 **"SEC. 3111. RATE OF TAX.**

2 "In addition to other taxes, there is hereby imposed on  
3 every employer an excise tax, with respect to having indi-  
4 viduals in his employ, equal to the following percentages  
5 of the wages (as defined in section 3121 (a)) paid by him  
6 with respect to employment (as defined in section 3121  
7 (b))—

8 " (1) with respect to wages paid during the cal-  
9 endar years 1979 and 1980, the rate shall be 4.330  
10 percent;

11 " (2) with respect to wages paid during the calen-  
12 dar years 1991 through 2001, the rate shall be 4.400  
13 percent;

14 " (3) with respect to wages paid during the calen-  
15 dar years 2002 through 2010, the rate shall be 4.600  
16 percent;

17 " (4) with respect to wages paid during the calendar  
18 years 2011 through 2022, the rate shall be 5.400 per-  
19 cent; and

20 " (5) with respect to wages paid after December 31,  
21 2020, the rate shall be 6.800 percent."

22 (c) Section 1401 of such Code (relating to rate of tax  
23 on self-employment income) is amended to read as follows:

24 **"SEC. 1401. RATE OF TAX.**

25 "In addition to other taxes, there shall be imposed for

1 each taxable year, on the self-employment income of every  
2 individual, a tax as follows:

3 “(1) in the case of any taxable year beginning after  
4 December 31, 1978, and before January 1, 1981, the tax  
5 shall be equal to 6.495 percent of the amount of the self-  
6 employment income for such taxable year;

7 “(2) in the case of any taxable year beginning after  
8 December 31, 1980, and before January 1, 2002, the  
9 tax shall be equal to 6.600 percent of the amount of the  
10 self-employment income for such taxable year;

11 “(3) in the case of any taxable year beginning after  
12 December 31, 2001, and before January 1, 2011, the tax  
13 shall be equal to 6.900 percent of the amount of the self-  
14 employment income for such taxable year;

15 “(4) in the case of any taxable year beginning after  
16 December 31, 2010, and before January 1, 2021, the  
17 tax shall be equal to 8.100 percent of the amount of the  
18 self-employment income for such taxable year; and

19 “(5) in the case of any taxable year beginning after  
20 December 31, 2020, the tax shall be equal to 10.200  
21 percent of the amount of the self-employment income for  
22 such taxable year.”.

23 **SEC. 3. (a)** Section 201 (a) of the Social Security Act is  
24 amended—

25 (1) by striking out “(other than sections 3101 (b)  
26 and 3111 (b) )” each place it appears in paragraph (3) ;

1           (2) by striking out “, less the amounts specified in  
2           clause (1) of subsection (b) of this section” in para-  
3           graph (3) ;

4           (3) by striking out “(other than section 1401  
5           (b))” each place it appears in paragraph (4) ;

6           (4) by striking out “, less the amounts specified in  
7           clause (2) of subsection (b) of this section” in para-  
8           graph (4) ; and

9           (5) by striking out the last sentence.

10          (b) Section 201 (b) of such Act is amended by striking  
11          out all that follows the second sentence and inserting in lieu  
12          thereof the following: “There are hereby authorized to be  
13          appropriated to the Federal Disability Insurance Trust Fund  
14          for each fiscal year such sums as may be determined, in an  
15          annual authorization Act applicable to that year, to be neces-  
16          sary to provide for the prompt payment of the benefits de-  
17          scribed in the first sentence of subsection (h) and the ad-  
18          ministrative expenses incurred in connection therewith, and  
19          to provide an adequate contingency reserve.”.

20          (c) Section 201 (g) (2) of such Act is amended—

21               (1) by striking out “the Trust Funds” in the first  
22               sentence and inserting in lieu thereof “the Federal Old-  
23               Age and Survivors Insurance Trust Fund”;

24               (2) by striking out “3101 (a)” in the first sentence  
25               and inserting in lieu thereof “3101”; and



1           (3) by striking out the last sentence.

2       SEC. 4. (a) Section 1817 (a) of the Social Security  
3 Act is amended by striking out all that follows the second  
4 sentence and inserting in lieu thereof the following: "There  
5 are hereby authorized to be appropriated to the Trust Fund  
6 for each fiscal year such sums as may be determined, in an  
7 annual authorization Act applicable to that year, to be nec-  
8 essary to provide for the prompt payment of benefits under  
9 this part and the administrative expenses incurred in con-  
10 nection therewith, and to provide an adequate contingency  
11 reserve."

12       (b) Section 1817 (f) of such Act is repealed.

13       SEC. 5. (a) The second sentence of section 706 (d)  
14 of the Social Security Act is amended by striking out para-  
15 graphs (1), (2), and (3) and inserting in lieu thereof the  
16 following:

17           “(1) a separate report with respect to the old-age  
18 and survivors insurance program under title II and of  
19 the taxes imposed under sections 1401, 3101, and 3111  
20 of the Internal Revenue Code of 1954,

21           “(2) a separate report with respect to the disability  
22 insurance program under title II and of the financing  
23 thereof,

24           “(3) a separate report with respect to the hospital

1 insurance program under part A of title XVIII and of  
2 the financing thereof, and

3 “(4) a separate report with respect to the supple-  
4 mentary medical insurance program established by part  
5 B of title XVIII and of the financing thereof.”.

6 (b) Sections 6051 (e) and 6413 (c) (3) of the Internal  
7 Revenue Code of 1954 are repealed.

8 (c) Section 6(c) (2) of the Railroad Retirement Act  
9 of 1974 is amended by striking out “(excluding, for this  
10 purpose, the amount of the employee tax attributable to that  
11 portion of the tax rate derived from section 3101 (b) of the  
12 Internal Revenue Code of 1954) ”.

13 SEC. 6. The amendments made by subsection (a) and  
14 (b) of section 2 of this Act, and the amendments made by  
15 subsection (b) and (c) of section 5, shall apply with respect  
16 to wages paid on and after January 1, 1979. The amend-  
17 ment made by subsection (c) of section 2 of this Act, shall  
18 apply with respect to taxable years beginning after Decem-  
19 ber 31, 1977. The amendments made by sections 3 and 4  
20 of this Act shall apply with respect to fiscal years ending  
21 after the date of the enactment of this Act. The amendment  
22 made by subsection (a) of section 5 of this Act shall apply  
23 with respect to reports submitted on and after the date of  
24 its enactment.

95TH CONGRESS  
2D SESSION

# S. 2607

---

## IN THE SENATE OF THE UNITED STATES

FEBRUARY 28 (legislative day, FEBRUARY 6), 1978

MR. HASKELL introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To amend the Internal Revenue Code of 1954 to provide a refund or credit of 10 percent of the employer and self-employed social security taxes paid by a taxpayer.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 That (a) subchapter B of chapter 65 of the Internal  
4 Revenue Code of 1954 (relating to rules of special appli-  
5 cation for credits and refunds) is amended by adding at the  
6 end thereof the following new section:

7 **"SEC. 6429. REFUND OF CERTAIN SOCIAL SECURITY**  
8 **TAXES.**

9 " (a) REFUND.—Except as provided in subsection (c),  
10 the Secretary shall pay (without interest) to any taxpayer

1 an amount equal to 10 percent of the amount of social  
2 security taxes paid by such taxpayer during the taxable year.

3 “(b) PERIOD COVERED; TIME FOR FILING CLAIM.—

4 “(1) PERIOD COVERED.—A taxpayer shall not file  
5 more than one claim under subsection (a) with respect  
6 to social security taxes paid during any taxable year.

7 “(2) TIME FOR FILING CLAIM.—No claim shall be  
8 allowed under subsection (a) with respect to social  
9 security taxes paid during any taxable year unless filed  
10 by the taxpayer not later than the time prescribed by  
11 law for filing a claim for credit or refund of overpayment  
12 of income tax for such taxable year.

13 “(c) DEFINITIONS; SPECIAL RULE. For purposes of  
14 this section—

15 “(1) SOCIAL SECURITY TAX.—The term ‘social  
16 security tax’ means any tax—

17 “(A) imposed under section 1401, 3111,  
18 3211 (a) (to the extent attributable to any tax im-  
19 posed under section 3111), or 3221 (b) ; or

20 “(B) paid by a State to the Federal govern-  
21 ment under an agreement under section 218 of the  
22 Social Security Act which, under such agreement,  
23 is equivalent to the tax imposed by section 3111.

24 “(2) TAXABLE YEAR.—The term ‘taxable year’

1 means a taxable year of any person for purposes of  
2 subtitle A.

3 “(3) PAYMENTS TO POLITICAL SUBDIVISIONS.—  
4 Any State receiving any payment under the provisions  
5 of this section shall agree to pay (and any such pay-  
6 ment shall be made on the condition that such State pay)  
7 to any political subdivision thereof a percentage of the  
8 aggregate amount of such payment for a taxable year  
9 equal to the percentage of the amount paid by such  
10 State under section 218 (c) (1) (A) of the Social Secu-  
11 rity Act for which such State was reimbursed by such  
12 political subdivision.

13 “(d) APPLICABLE LAWS.—

14 “(1) IN GENERAL.—All provisions of law, includ-  
15 ing penalties, applicable in respect of any social security  
16 tax shall, insofar as applicable and not inconsistent with  
17 this section, apply in respect of payments provided for  
18 in this section to the same extent as if such payments  
19 constituted refunds of payments of the tax so imposed.

20 “(2) EXAMINATION OF BOOKS AND WITNESSES.—  
21 For the purposes of any claim made under this section,  
22 or the correctness of any payment made in respect of  
23 such claim, the Secretary shall have the authority  
24 granted by paragraphs (1), (2), and (3) of section

1 7602 as if the claimant were the person liable for tax.

2 “(e) INCOME TAX CREDIT IN LIEU OF PAYMENT.—

3 “(1) PERSONS NOT SUBJECT TO INCOME TAX.—

4 Payment shall be made under subsection (a) only to—

5 “(A) a State, or

6 “(B) an organization exempt from tax under  
7 section 501(a) (other than an organization re-  
8 quired to make a return of the tax imposed under  
9 subtitle A for its taxable year).

10 “(2) ALLOWANCE OF CREDIT AGAINST INCOME

11 TAX.—For allowances of credit against the tax imposed  
12 by subtitle A, see section 44C.

13 “(f) REGULATIONS.—The Secretary may by regula-  
14 tions prescribe the conditions, not inconsistent with the  
15 provisions of this section, under which payments may be  
16 made under this section.”.

17 (b) The table of sections for subchapter B of chapter 65  
18 of such Code is amended by adding at the end thereof the  
19 following new item:

“Sec. 6429. Refund of certain social security taxes.”.

20 SEC. 2. (a) Subpart A of part IV of subchapter A of  
21 chapter 1 of the Internal Revenue Code of 1954 (relating  
22 to credits allowable) is amended by adding at the end there-  
23 of the following new section:

1 **"SEC. 44C. CERTAIN SOCIAL SECURITY TAXES.**

2       **"(a) GENERAL RULE.—**There shall be allowed as a  
3 credit against the tax imposed by this subtitle for the tax-  
4 able year an amount equal to an amount payable to the  
5 taxpayer under section 6429 (determined without regard  
6 to subsection (e) thereof).

7       **"(b) EXCEPTION.—**Credit shall not be allowed under  
8 subsection (a) for any amount payable under section 6429,  
9 if a claim for such amount is timely filed and, under section  
10 6429 (e), is payable under such section."

11       **(c) (1) Section 6401 (b) of such Code (relating to**  
12 **amounts treated as overpayments) is amended—**

13               **(A) by striking out "oil and 43" and inserting in**  
14 **lieu thereof "oil), 43",**

15               **(B) by inserting ", and 44C (relating to social**  
16 **security tax credit)" after "credit)", and**

17               **(C) by striking out "and 43," and inserting in lieu**  
18 **thereof ", 43, and 44C,".**

19       **(2) Section 6201 (a) (4) of such Code (relating to**  
20 **assessment authority) is amended—**

21               **(A) by striking out "or 43" in the caption thereof**  
22 **and inserting in lieu thereof ", 43, or 44C",**

23               **(B) by striking out "oil) or section 43" and in-**  
24 **serting in lieu thereof "oil), section 43", and**

## 6

1           (C) by inserting "or section 44C (relating to social  
2           security tax credit)," after "income)".

3           (d) The table of sections for subpart A of part IV of  
4           subchapter A of chapter 1 of such Code is amended by in-  
5           serting at the end thereof the following new item:

                  "Sec. 44C. Certain social security taxes."

6           SEC. 3. The amendments made by this Act shall apply  
7           to taxable years beginning after December 31, 1977.



95TH CONGRESS  
2D SESSION

# S. 2741

---

## IN THE SENATE OF THE UNITED STATES

MARCH 14 (legislative day, FEBRUARY 6), 1978

Mr. DOMENICI introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To amend the Internal Revenue Code of 1954 to allow a refundable credit against income tax liability for increases in social security taxes resulting from increases in social security tax rates effective after December 31, 1977.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. ALLOWANCE OF CREDIT.**

4 (a) **IN GENERAL.**—Subpart A of part IV of subchapter  
5 A of subchapter 1 of the Internal Revenue Code of 1954  
6 (relating to credits allowable) is amended by inserting  
7 before section 45 the following new section:

1 "SEC. 44C. INCREASES IN SOCIAL SECURITY TAX LIA-  
2 BILITY.

3 "(a) GENERAL RULE.—

4 "(1) EMPLOYEES AND SELF-EMPLOYED INDIVID-  
5 UALS.—In the case of an individual, there shall be al-  
6 lowed as a credit against the tax imposed by this chap-  
7 ter for the taxable year an amount equal to the excess  
8 social security tax liability of the individual for the tax-  
9 able year.

10 "(2) EMPLOYERS.—In the case of a taxpayer  
11 which is an employer, there shall be allowed as a  
12 credit against the tax imposed by this chapter for the  
13 taxable year an amount equal to the excess social securi-  
14 ty employer tax liability of the taxpayer for the tax-  
15 able year.

16 "(b) DEFINITIONS, SPECIAL RULES.—

17 "(1) EXCESS SOCIAL SECURITY TAX LIABILITY.—  
18 For purposes of this section, the term 'excess social  
19 security tax liability' means the amount by which—

20 "(A) the liability of the individual for taxes  
21 imposed under sections 1401 and 3101 for the  
22 taxable year, exceeds

23 "(B) the amount of such liability which would  
24 be determined for the taxable year if—

1                   “(i) the rates of tax imposed under sec-  
2                   tion 1401 totaled 7.9 percent, and

3                   “(ii) the rates of tax imposed under sec-  
4                   tion 3101 totaled 5.85 percent.

5                   “(2) SPECIAL RULE FOR STATE AND LOCAL GOV-  
6                   ERNMENT EMPLOYEES.—For purposes of this section,  
7                   any tax imposed on an employee of any State or political  
8                   subdivision thereof—

9                   “(A) which is paid by the State to the Fed-  
10                  eral government under an agreement under section  
11                  218 of the Social Security Act, and

12                  “(B) which, under such agreement, is equiv-  
13                  alent to the tax imposed by section 3101, shall be  
14                  treated as a tax imposed by section 3101.

15                  “(3) EXCESS SOCIAL SECURITY EMPLOYER TAX  
16                  LIABILITY.—The term ‘excess social security employer  
17                  tax liability’ means the amount by which—

18                  “(A) the liability of the taxpayer under subchap-  
19                  ter B of chapter 21 for the taxable year exceeds

20                  “(B) the amount of such liability which would be  
21                  determined for the taxable year if the rates of tax  
22                  imposed under section 3111 totaled 5.85 percent.”.

23                  (b) REFUND OF EXCESS CREDIT.—

1           (1) Subsection (b) of section 6401 of such Code  
2 (relating to excessive credits) is amended—

3           (A) by striking out “and 43 (relating to earned  
4 income credit),” and inserting in lieu thereof “43  
5 (relating to earned income credit), and 44C (relat-  
6 ing to credit for increases in social security tax lia-  
7 bility),”, and

8           (B) by striking out “39 and 43” and inserting  
9 in lieu thereof “39, 43, and 44C”.

10          (2) Paragraph (4) of section 6201(a) of such  
11 Code (relating to erroneous credit under section 39 or  
12 43) is amended—

13           (A) by striking out “39 or 43” in the caption  
14 and inserting in lieu thereof “39, 43, or 44C”, and

15           (B) by striking out “or section 43 (relating to  
16 earned income),” and inserting in lieu thereof “sec-  
17 tion 43 (relating to earned income), or section  
18 44C (relating to credit for increases in social se-  
19 curity tax liability),”.

## 5

1 (c) CLERICAL AMENDMENT.—The table of sections  
2 for such subpart A is amended by inserting immediately be-  
3 fore the item relating to section 45 the following:

“Sec. 44C. Increase in social security tax liability.”.

4 **SEC. 2. EFFECTIVE DATE.**

5 The amendments made by section 1 shall apply with re-  
6 spect to taxable years ending after September 30, 1978.

95TH CONGRESS  
2D SESSION

# S. 2746

---

## IN THE SENATE OF THE UNITED STATES

MARCH 15 (legislative day, FEBRUARY 6), 1978

Mr. HARTFIELD of Montana introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To maintain in effect for 1978 and succeeding years the social security tax rate which was in effect for 1977, and to provide that there shall be paid into the social security trust funds from general revenues an amount equal to the difference in social security taxes actually received by them and the amount which would have been received by them if the social security tax rates prescribed by existing law for such years had continued in effect.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*  
3 That (a) (1) section 3101 (a) of the Internal Revenue  
4 Code of 1954 (relating to tax on employees for purposes  
5 of old-age, survivors, and disability insurance) is amended  
6 to read as follows:

1       “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-  
2 ANCE.—In addition to other taxes, there is hereby imposed  
3 on the income of every individual a tax equal to 4.95 per-  
4 cent of the wages (as defined in section 3121 (a) ) received  
5 by him after December 31, 1977, with respect to employ-  
6 ment (as defined in section 3121 (b) ).”.

7       (2) Section 3111 (a) of such Code (relating to tax on  
8 employers for purposes of old-age, survivors, and disability  
9 insurance) is amended to read as follows:

10       “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-  
11 ANCE.—In addition to other taxes, there is hereby imposed  
12 on every employer an excise tax, with respect to having in-  
13 dividuals in his employ, equal to 4.95 percent of the wages  
14 (as defined in section 3121 (a) ) paid by him after Decem-  
15 ber 31, 1977, with respect to employment (as defined in  
16 section 3121 (b) ).”.

17       (3) Section 1401 (a) of such Code (relating to tax on  
18 self-employment income) is amended to read as follows:

19       “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-  
20 ANCE.—In addition to other taxes, there shall be imposed for  
21 each taxable year beginning after December 31, 1977, on  
22 the self-employment income of every individual, a tax equal  
23 to 7 percent of the amount of the self-employment income  
24 for such taxable year.”.

25       (b) (1) Section 3101 (b) of such Code (relating to tax

1 on employees for purposes of hospital insurance) is amended  
2 to read as follows:

3 “(b) HOSPITAL INSURANCE.—In addition to the tax  
4 imposed by the preceding subsection, there is hereby  
5 imposed on the income of every individual a tax equal to  
6 0.90 percent of the wages (as defined in section 3121 (a) )  
7 received by him after December 31, 1977 with respect to  
8 employment (as defined in section 3121 (b) ).”.

9 (2) Section 3111 (b) of such Code (relating to tax on  
10 employers for purposes of hospital insurance) is amended to  
11 read as follows:

12 “(b) HOSPITAL INSURANCE.—In addition to the tax  
13 imposed by the preceding subsection, there is hereby  
14 imposed on every employer an excise tax, with respect to  
15 having individuals in his employ, equal to 0.90 percent of  
16 the wages (as defined in section 3121 (a) ) paid by him  
17 after December 31, 1977, with respect to employment (as  
18 defined in section 3121 (b) ).”.

19 (3) Section 1401 (b) of such Code (relating to tax on  
20 self-employment income for purposes of hospital insurance)  
21 is amended to read as follows:

22 “(b) HOSPITAL INSURANCE.—In addition to the tax  
23 imposed by the preceding subsection, there is hereby  
24 imposed for each taxable year beginning after December 31,  
25 1977, on the self-employment income of every individual,



1 a tax equal to 0.90 percent of the amount of the self-  
2 employment income for such taxable year.”.

3 SEC. 2. In the administration of sections 201 and 1817  
4 of the Social Security Act—

5 (1) there shall be deemed to have been imposed  
6 by the Internal Revenue Code of 1954 the same amount  
7 of taxes as would have been imposed by such Code had  
8 the first section of this Act not been enacted, and

9 (2) there shall be deemed to have been paid an  
10 amount of such taxes equal to the difference in the  
11 amount actually paid and the amount which would have  
12 been paid if the first section of this Act had not been  
13 enacted and all persons liable for the payment of such  
14 tax had made timely payment of the difference in the  
15 amount for which they were actually liable and the  
16 amount for which they would have been liable if the  
17 first section of this Act had not been enacted.

95TH CONGRESS  
2D SESSION

# S. 2808

---

## IN THE SENATE OF THE UNITED STATES

MARCH 23 (legislative day, FEBRUARY 6), 1978

Mr. DOLE introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To amend the Internal Revenue Code of 1954 to allow an individual a credit against tax equal to 20 percent of the social security taxes paid by that individual during the taxable year and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 That (a) subpart A of part VI of subchapter A of chapter 1  
4 of the Internal Revenue Code of 1954 (relating to credits  
5 allowable) is amended by adding at the end thereof the  
6 following new section:

7 "SEC. 44C. SOCIAL SECURITY TAX CREDIT.

8 "(a) IN GENERAL.—In the case of an individual there  
9 shall be allowed as a credit against the tax imposed by this

1 chapter for the taxable year an amount equal to 20 percent  
2 of any social security tax paid by that individual during the  
3 taxable year.

4 “(b) SOCIAL SECURITY TAX.—

5 “(1) IN GENERAL.—For purposes of this section,  
6 the term ‘social security tax’ means any tax imposed by  
7 section 1401, 3101, 3201, or 3211 (but only to the  
8 extent attributable to taxes imposed by section 3101).

9 “(2) STATE AND LOCAL GOVERNMENT EMPLOY-  
10 EES.—For purposes of paragraph (1), any tax imposed  
11 on an employee of any State or political subdivision  
12 thereof—

13 “(A) which is paid by the State to the Federal  
14 Government under an agreement under section 218  
15 of the Social Security Act; and

16 “(B) which, under such agreement, is equiva-  
17 lent to the tax imposed by section 3101, shall be  
18 treated as a tax imposed by section 3101.

19 “(c) REGULATIONS.—The Secretary shall prescribe  
20 such regulations as may be necessary to carry out the pro-  
21 visions of this section.”

22 (b) (1) Section 6410(b) of such Code (relating to  
23 amounts treated as overpayments) is amended—

24 (A) by striking out “oil) and 43” and inserting  
25 in lieu thereof “oil), 43”,

1 (B) by inserting “, and 44C (relating to social  
2 security tax credit)” after “credit)”, and

3 (C) by striking out “and 43,” and inserting in  
4 lieu thereof “, 43, and 44C”.

5 (2) Section 6210 (a) (4) of such Code (relating to  
6 assessment authority) is amended—

7 (A) by striking out “or 43” in the caption thereof  
8 and inserting in lieu thereof “, 43, or 44C”,

9 (B) by striking out “oil) or section 43” and insert-  
10 ing in lieu thereof “oil), section 43”, and

11 (C) by inserting “or section 44C (relating to social  
12 security tax credit)”, after “income)”.’.

13 (c) The table of sections for such subpart is amended  
14 by inserting after the item relating to section 44B the fol-  
15 lowing new item:

“Sec. 44C. Social security tax credit.”.

16 SEC. 2. (a) The amendments made by this Act shall  
17 apply to taxable years beginning after December 31, 1977.

**S. 2812**

---

**IN THE SENATE OF THE UNITED STATES**

MARCH 23 (legislative day, FEBRUARY 6), 1978

Mr. DANFORTH (for himself, Mr. JAVITS, Mr. PERCY, Mr. CHAFFE, Mr. LUGAR, and Mr. STEVENS) introduced the following bill; which was read twice and referred to the Committee on Finance

---

**A BILL**

To amend the Internal Revenue Code of 1954 to provide a credit against income tax for social security taxes paid by an individual.

- 1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*  
3       That (a) subpart A of part IV of subchapter A of chapter  
4       1 of the Internal Revenue Code of 1954 (relating to credits  
5       allowable) is amended by inserting before section 45 the  
6       following new section:

1 **"SEC. 44C. SOCIAL SECURITY, ETC., TAXES.**

2       “(a) **GENERAL RULE.**—In the case of an individual,  
3 there shall be allowed as a credit against the tax imposed by  
4 this chapter for the taxable year an amount equal to 10 per-  
5 cent of the social security, etc., taxes paid or incurred by the  
6 individual for the taxable year.

7       “(b) **DEFINITION OF SOCIAL SECURITY, ETC.,**  
8 **TAXES.**—For purposes of this section, the term ‘social se-  
9 curity, etc., tax’ means the liability of an individual for tax  
10 imposed under section 1401, 3101, or 3201. For purposes  
11 of this section, any tax imposed on an employee of any  
12 State or political subdivision thereof—

13               “(1) which is paid by the State to the Federal  
14 Government under an agreement under section 218 of  
15 the Social Security Act, and

16               “(2) which, under such agreement, is equivalent to  
17 the tax imposed by section 3101,  
18 shall be treated as a tax imposed by section 3101.”.

19       “(b) **REFUND OF EXCESS CREDIT.**—Subsection (b) of  
20 section 6401 of such Code (relating to excessive credits)  
21 is amended—

22               (1) by striking out “and 43 (relating to earned  
23 income credit),” and inserting in lieu thereof “43  
24 (relating to earned income credit), and 44C (relating  
25 to credit for social security, etc., taxes),” and

1           (2) by striking out "39 and 43" and inserting in  
2           licu thereof "39, 43, and 44C".

3           (C) The table of sections for such subpart A of such  
4           Code is amended by inserting immediately before the item  
5           relating to section 45 the following:

"Sec. 44C. Social Security, Etc., Taxes."

6           (d) The amendments made by this Act shall apply  
7           with respect to taxable years beginning after December 31,  
8           1978.

Senator NELSON. The Senate Finance Subcommittee on Social Security today begins 2 days of hearings on alternative proposals to finance the social security programs.

Witnesses this morning include: Michael Blumenthal, Secretary of the Treasury; Alice Rivlin, Director of the Congressional Budget Office; and Leon Keyserling, former Chairman of the Council of Economic Advisers.

The social security system is, in my judgment, the most successful social program ever enacted by the Congress. In a little more than 40 years, social security has developed into a program of major importance to just about every American family. Practically every American is either a beneficiary, a contributor building protection for the future, or the dependent of a contributor. Ninety-three percent of people 65 or older are eligible for social security benefits. Ninety-five of 100 young children and their mothers are protected by social security life insurance and four out of five people of working age have protection against the loss of income due to long-term disability.

More than 33 million people, 1 out of every 7 Americans, receive a social security benefit each month. About 107 million people paid into the program in 1977.

During these past four decades, the social security system has worked very well. Without the various social security programs, millions of people would be in desperate circumstances.

Over the past few years, however, many individuals who have studied and analyzed social security have raised a number of questions about the operation and purposes of the programs. At the same time, a number of demographic, social, and economic changes have occurred in the past 40 years which have created new and different demands on the social security system that never were contemplated by the original designers of the program.

These questions that have been raised and the changes that have taken place in our society have, in turn, led many people to conclude that a comprehensive review of social security is essential at this juncture to determine the future direction of these important programs.

The issues which need to be studied and carefully considered by Congress and the American public include: whether all employees, State, local, and Federal, should be included in the social security system; an evaluation of whether the social security benefit structure and replacement rates should remain at levels which have been established; reform of the disability insurance program; whether the various social security programs should be removed from the social security tax and financed with general revenues; and the relationship between private pension plans and social security.

Last year, many of us fully recognized that these issues needed further study and evaluation, but time constraints prohibited Congress from dealing with these important topics at that time. Congress had to deal last year with the urgent question of how to handle the immediate financial crisis in the social security programs.

Additional income had to be provided to cover the cost of present benefits and to place the trust fund reserves in a sound financial condition to assure workers who are now contributing social security taxes that their benefits would be available as they become entitled to them.



The financial crunch that threatened the integrity of the Social Security System was created primarily by excessively high inflation and high unemployment.

When the actuaries of the social security program projected the future status of the trust fund several years ago, it was then thought that sufficient funding was provided by the wage base and tax rates provided in the 1972 and 1973 social security laws. However, because unemployment has been higher in the last few years than anticipated, and because of inflation, the tax rates and base were not sufficient.

As a result, the short-term fiscal stability of the funds was put in jeopardy. So, Congress did act last year.

For example, Congress last year recognized the need to explore many of the issues that had been raised about social security programs and action was taken to initiate investigations into each of these important areas.

For example, the Senate and House Social Security Subcommittees established an agenda of hearings on many of the questions that have been raised about social security and these inquiries are now proceeding.

In addition, the legislation which was approved last year extended until October 1979, the date on which the Social Security Advisory Council is to report to Congress and the President on the status of the various social security programs and make legislative recommendations for improving the operation of these programs.

The Advisory Council recently was appointed and their work is getting underway. Finally, last year's social security legislation established a National Commission on Social Security.

This Commission is to make a broad study which includes the fiscal status of the trust funds, universal coverage of State, local, and Federal employees, adequacy of benefits, alternative methods of financing social security benefits, integration of the social security system with private retirement programs and other related issues. The Commission is to present its full report to the President and to the Congress within 2 years after a majority of the members have been appointed.

After these studies and investigations of the social security system are completed, it may well be the case—although I do not think so—that the legislation enacted last year is, in fact, the best alternative. But in the meantime, social security payroll tax rates and wage bases need not be increased beyond the tax rate and wage bases provided in the 1972 and 1973 laws, in my judgment, because the resolution of many of the issues which have not been carefully nor completely examined will affect the financing of the social security programs.

For example, universal coverage of State, local, and Federal employees, the readjustment of retirement replacement rates, or reform of the disability insurance program ultimately will affect both social security trust fund expenditures and revenues.

Congress can maintain the wage bases and tax rates provided under prior laws by diverting a portion of the administration's proposed reduction of some \$33 billion in personal and corporate income taxes to be effective in fiscal year 1979 to pay for this proposal.

The President proposed the reductions in personal and corporate income taxes, in part, because of the increased social security taxes

that would have to be paid. Congress now has the opportunity because of the fortuitous circumstance in which the President has recommended tax reductions in personal and corporate income taxes to directly reduce the proposed increases in payroll taxes.

At the same time, the Federal deficit—which everyone is concerned about—would not have to be increased any more than the President suggested. This action would have the advantage of reducing payroll taxes, provide roughly equivalent stimulation to the economy, and prevent inflationary pressures created by increased labor costs as a result of the increased social security taxes.

Under this approach of imposing a moratorium on the 1977 law, social security tax rates and wage bases in calendar years 1979, 1980, and 1981 would remain at the levels prescribed in the 1972 and 1973 laws. To make up the difference between the revenues that would be collected under the higher tax rates and wage bases provided under the 1977 legislation, general revenues could be used to support a portion of the hospital insurance program and a part of the tax that now supports the hospital insurance programs could be reallocated to help finance the retirement and disability insurance programs.

A growing segment of Congress has come to accept the proposition that general revenues ought to be used to fund one or more of the social security programs, particularly the hospital insurance program. This is not a new idea. The Carter administration, two Social Security Advisory Councils, social security experts, economists and other knowledgeable individuals, have supported the concept of infusing general funds into one or another of the social security trust funds for some time.

I see the Secretary has arrived. I will ask that the balance of my statement be printed in full in the record and defer to Senator Haskell.

[The remainder of Senator Nelson's statement follows:]

Last year, the Administration's social security bill proposed a direct transfer of general revenue funds in years in which the unemployment rate exceeds six percent. During consideration of the social security bill last year, I proposed in the Senate Finance Committee to use part of the payroll taxes that support the hospital insurance program for financing the retirement and disability insurance programs so that payroll tax increases could be kept to a minimum. Unfortunately, neither of these ideas was adopted by Congress.

In my opinion, the time has come for the hospital insurance program to be removed from payroll tax financing. Whether a person gets sick, is admitted to a hospital and uses social security hospital insurance benefits is strictly an incidence of an individual's good health or lack of it, and not of the payroll taxes that have been paid over their working years. Yet, everyone covered by social security, whether healthy or not, is obligated to contribute payroll taxes in proportion to their annual earnings. In recognition of these factors, the 1975 Social Security Advisory Council recommended that fifty percent of the cost of the hospital insurance program be funded by general revenues.

A three year moratorium on the implementation of the social security legislation enacted last year would not create the situation in which the social security cash benefit funds would be left unprotected. Rather, it would give Congress and the American public the time to rationally discuss each of the relevant issues and to enact any necessary legislation. The 1977 Social Security legislation could be implemented at a later time should no further action be taken by Congress.

Whether this proposal or any of the other proposals that have been suggested by various members of Congress is the best way to proceed this year is not yet certain. However, it does seem clear to me that Congress will act this year on social security financing. The House Budget Committee voted yester-

day to reduce next year's scheduled increases in social security taxes. The House Democratic Caucus is meeting this morning to consider the issue of reducing social security taxes by infusing general revenues into one or another of the social security trust funds, and the prospects of their approving a resolution to do so look very good. In the Senate, numerous members have sponsored various measures to reduce the impact of last year's social security tax increases, and the support for these measures has come from Republicans and Democrats alike and from a broad cross-section of political interests.

The hearings that will be held today and tomorrow by this Subcommittee and the other hearings which have been planned will be helpful in determining which direction Congress takes on this very important topic.

Senator HASKELL. Mr. Chairman, I have a statement that I will put in the record, but I do want to make a few observations. I will be interested to hear from the distinguished Secretary of the Treasury on the rationale which I gather the administration has adopted for reducing a progressive tax (the Federal income tax) to offset a vast increase in a regressive tax (the social security payroll tax). I think that would be one subject of interest.

I support the proposals made by the chairman of the subcommittee and also by Senator Hathaway to use general funds to partially support social security. Due to the extent of the income transfer in the social security program, probably at least one-third should be paid out of general funds.

I also concur with the subcommittee chairman on the need to review the benefit studies. I hope that the Advisory Council referred to in his opening statement will introduce some element of rationality into the social security program in the areas first of qualification and second of benefits. Because, at least as I view it, the system has grown higgledy-piggledy over a couple of generations and it is high time that the whole subject is re-examined and made into one rational whole.

That is my only observation, Mr. Chairman.

[The prepared remarks of Senator Haskell follow:]

Mr. Chairman, I welcome these hearings. The Nation's social security system faces a grave crisis, one which can only be resolved by a fundamental and permanent departure from our traditional approach to financing it.

The present short-term financing problems surrounding social security originated during the years of severe recession, high unemployment, and inflation. These economic problems have reduced revenues collected for social security through payroll taxes while at the same time, benefits have increased greatly through cost-of-living indexing.

The long-term financing crisis is far more frightening. Its ultimate solution may be beyond the workings of government. Improved life expectancy and dropping birthrates are combining to profoundly alter the ratio of workers paying social security taxes to the number of older Americans drawing benefits. This changing make-up of our population has far-reaching implications for the future of social security and our approach to funding it.

In order to restore the solvency of the trust funds, significant new revenues must be raised. These new revenues can only come from increased payroll taxes, general tax revenues, or a combination of the two. The alternative to tax increases is a drastic reduction in benefits.

The course Congress chose last year was to raise social security taxes to an unprecedented level. That tax increase represents the largest peacetime tax increase this Nation has seen in decades. These increases will hurt the economic recovery and will add to both inflation and unemployment. Our ability to continue to rely exclusively on the payroll tax to support social security has clearly reached the breaking point.

The answer, I believe, lies in the use of general tax revenues to finance a significant portion of social security.

There is extensive redistribution of income within the social security system. While it is difficult to determine precisely the magnitude of this income transfer, it is clearly enormous—from men to women, from single persons to married couples, from working wives to non-working wives, and above all, from this generation of workers to this generation of beneficiaries. The very breadth of this income transfer argues for the use of a broader and more progressive tax base—the Federal income tax system—to finance it. I believe that part of the burden of this massive income redistribution should properly be borne by the Federal tax structure.

I have cosponsored Senator Nelson's bill to finance Medicare and disability insurance with general revenues and am sympathetic to Senator Hathaway's proposal to use general funds to pay for one-third of social security's costs.

On March 1, I introduced legislation which would substitute for the President's proposed corporate income tax rate reduction, a 10 percent refundable tax credit against the social security liability of employers, including tax exempt organizations and public employers. My bill distributes tax relief more equitably than the President's proposal—namely, to those employees who will be burdened with increased social security taxes. Fully 78 percent of the President's corporate rate reductions go to corporations with annual profits of \$10 million or more. My bill would provide tax relief to all employers—large and small, profitable and unprofitable incorporated and unincorporated.

I introduced my bill at a time when it appeared that Congress was not prepared to directly reduce the social security taxes it increased last year. The momentum behind a rollback or moratorium has grown enormously since then. I strongly support such a rollback, as a partial or even complete substitute for the President's tax proposals. My overriding concern is that Congress act this year to undo the damage of last year's social security financing bill.

Senator NELSON. Senator Curtis?

Senator CURTIS. Mr. Chairman, I have a very brief one, and I think I can save time by reading it.

Mr. Chairman, I want the record to show that I appreciate very much the gracious chairman, in his permission to let me make a statement, since I am not a member of the subcommittee. This statement is my own views only, and I will proceed with it.

The Congress is facing a real test. We must now answer to the people concerning the payment of their promised social security benefits. This is a concern, not only for the retired, but those who will retire.

It is well that we consider a few of the facts that we are facing. The problems in social security financing were created by the Congress and the Congress must face up to those problems. It is unthinkable that the Government's commitment to pay these benefits should be repudiated, lessened, or paid with IOU's.

With the general funds of the Government operating with a huge, uncontrollable deficit, any form of paying benefits out of the general fund, including a tax credit or deduction of the payment of social security taxes would in reality be paying the beneficiaries with IOU's. I am sure that eventually it would convert the social security retirement system into a welfare program.

The high social security taxes that some of our people are now feeling are not the result of the action taken in the latter part of 1977. These high social security taxes are the result of previous actions of the Congress.

The victims of an excessive social security tax are the middle-class people, and particularly those earners who are in the upper brackets of the middle class. In my opinion, this is because the Congress, instead of spreading the tax burden evenly, has chosen to soak the more fortunate. Now, with the growth of our economy plus the ravages of in-

flation, this so-called more fortunate group becomes a great portion of the rank and file.

One of the basic evils which has been practiced in the past has been to raise social security revenues by overextending the covered wage base. At the present time, with social security taxes levied on earnings up to \$17,700 per year, only one-sixth of the social security taxpayers have earnings in excess of this wage base. So when we raise needed revenue by levying only on one-sixth of the taxpayers, the burden becomes heavy and ruinous. This is further compounded by the factor of the built-in features of the law which bring about automatic increases in the wage base.

Another evil that has been perpetrated in our social security system has been the voting of increased benefits without providing for the revenue in any manner. In 1972, the Congress voted for a 20-percent increase in benefits without providing the necessary revenue. Much of the added revenue that the Congress voted in 1977 will go to reimburse the social security fund for this past unsound action.

In other words, our people will have to pay added taxes not for current and future benefits but for past debts.

In the action taken on the social security tax in late 1977, the Congress could have provided for the deficit in the social security fund by levying a tax rate increase of one-half of 1 percent on the earnings of each social security taxpayer. This failed on a rollcall vote in the Senate, and the Congress, once more, increased the covered wage base.

In considering the social security financing, we should keep in mind that the benefit formula is very properly tilted in favor of low income persons. This is right, and I favor it. We should also keep in mind that the provision in our tax law for the earned income credit, likewise, very properly benefits the people of low income.

We should not continue to raise revenue under the pretense that we are soaking the few by increasing the covered wage base or by adding to the burden of the employers.

The Congress has provided for a commission to study all of these problems and come up with a recommendation within 2 years. It is my hope that what is said at these hearings will be helpful to that commission. In the meantime, we should not sacrifice soundness in our efforts to get a quick answer.

I thank the Chairman.

Senator NELSON. Senator Long?

Senator LONG. Mr. Chairman, I will abbreviate my full statement and ask that it appear in full in the record.

Social security was designed as an income insurance program with a social orientation. That remains a fundamentally sound approach for a national social security program. Over the years, however, the social welfare aspects of the program have tended to become more predominant relative to the insurance aspects. That was especially true during the period when the fund was receiving more income than it was paying out in benefits. We could pay more benefits when changes in the actuarial assumptions warranted. It was a very attractive thing to do politically and the Congress, as well as this committee, indulged in it. I do not criticize anyone for it. If anyone should be blamed, I am partially the culprit myself.

We need to reexamine some of those welfare aspects, such as the minimum benefit and the extent to which the benefit structure is weighted in favor of those with low incomes. We need to look at the extent to which these highly skewed benefits actually serve those with low lifetime earnings and the extent to which they give an unintended bonus to those who worked under social security for only a few years and who have other income in addition to their social security income.

We should look for ways to limit the unexpected growth of the disability program. For example, an actuarial study published this year indicates that something like one out of three disability beneficiaries may be getting total benefits which greatly exceed what their take-home pay was before they were disabled. This indicates a real problem in the way in which disability benefit amounts are determined.

Other elements of the program can be reexamined—for example, the nature and scope of dependency and survivorship benefits. Are the assumptions of the 1930's about a mother's role still valid? Are we spending too much on the built-in increases in benefit levels which will far outpace inflation in the coming years?

Social security benefits cost real dollars. We cannot pay them by simply printing money which adds to the general deficit that is already \$60 billion a year. Congress did the responsible thing last year in facing up to that fact and voting the added taxes needed to pay those benefits. If we now want to cut those taxes, the only responsible courses are either to find a way to reduce the costs those taxes must support, or to find some other new source of revenue to carry at least part of that burden.

In spite of my statement here, I have an open mind in that I am willing to consider everybody's ideas and everybody's arguments, including all the very able witnesses who will be here today. They certainly have a lot to contribute.

None of these issues should be decided on an ad hominem basis. It is not really important who is right but what is right in discussing an issue of this sort.

I thank you, Mr. Chairman.

[The prepared remarks of Senator Long follow:]

#### OPENING STATEMENT OF SENATOR RUSSELL B. LONG

Last year Congress faced a social security program which was rapidly running out of money. Some people wanted us to "solve" the social security deficit by using funds from the general Treasury. But there are no extra general funds, just a general fund deficit. There is no way to spare the taxpayer the task of paying for the benefits of the social security program. If we can't raise the taxes to meet the program's costs, then our only real alternative is to find a way to reduce those costs.

Last year's legislation did make some reductions in the cost of the program. Low-priority benefit features that would have cost more than \$1 billion in 1979 were eliminated. But, if we want to put a real dent in the level of taxes needed to support the program, we are going to have to take a fundamental look at its basic structure. We are going to have to find ways to eliminate any unintended benefits which cost money but don't serve the purposes of the program. We are going to have to look for elements of the social security program which can be handled more efficiently by other programs.

Social security was designed as an income insurance program with a social orientation. That remains a fundamentally sound approach for a national social security program. Over the years, however, the social welfare aspects of the program have tended to become more predominant relative to the insurance as-

pects. We need to reexamine some of those welfare aspects such as the minimum benefit and the extent to which the benefit structure is weighted in favor of those with very low incomes. We need to look at the extent to which these highly skewed benefits actually serve those with low lifetime earnings—and the extent to which they give an unintended bonus to those who worked under social security for only a few years.

We should be looking for ways to limit the unexpected growth of the disability program. For example, an actuarial study published this year indicates that something like one out of three disability beneficiaries may be getting total benefits which are greater than their take-home pay before they were disabled. This indicates a real problem with the way in which disability benefit amounts are determined.

Other elements of the program can be reexamined—for example, the nature and scope of dependency and survivorship benefits. Are the assumptions of the 1930's about a mother's role still valid? Are we spending too much on the built-in increases in benefit levels which will far outpace inflation over the coming years?

Social security benefits cost real dollars. We cannot pay for them by simply printing money which adds to the general fund deficit of \$60-plus billion. Congress did the responsible thing last year in facing up to that fact and voting the added taxes needed to pay those benefits. If we now want to cut those taxes, the only responsible courses are either to find a way to reduce the costs those taxes must support, or to find some other new source of revenue to carry at least a major part of the burden.

Senator NELSON. Our first witness this morning is Secretary Blumenthal.

Mr. Secretary?

#### **STATEMENT OF HON. W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY**

Secretary BLUMENTHAL. Mr. Chairman and distinguished members of the Committee, I appreciate the opportunity to appear before you this morning and to present the Administration's views on the question of social security financing and social security taxes. I apologize for being a few minutes late. I was unavoidably detained at a meeting at the White House.

I have a formal statement which I have submitted to you, Mr. Chairman. In the interests of time, I will dispense with reading it, if that is all right with you.

Senator NELSON. That is fine. The statement will be printed in full in the record, and you may present your statement, however you desire.

Secretary BLUMENTHAL. I would like to just make a few comments for a few minutes, Mr. Chairman, to summarize what is in my statement and to extend my comments on the contents of that statement.

I think it is important to recognize that social security taxes are high and have been rising, but that is due to some problems that were faced last year. Both the short-term problems that arise as a result of the very severe stagflation of the mid-1970's, the worst recession in many years and the worst inflation in many years, which, on the one hand reduced the inflow into the system and on the other hand boosted the benefit pay-out above previous projections.

Also, the longterm problem arose, in part, from the over-indexing which had been factored into the system, into the benefit formula in 1972, as well as due to some changes in our projects for future birth and mortality over the next several decades.

The decisions that the Congress took last year in the social security amendments of 1977 in fact dealt with the immediate problem of the disability trust fund reserves being threatened with depletion by 1979 and the old-age survivor's trust fund reserves being depleted by 1983 and it restored the reserves to an appropriate level.

Those actions last year, therefore provide an opportunity and some time to take a further look at some point in the future as to whether the proper level of taxation has been reached, whether some changes should be made and what amendments can be considered.

We do not believe, Mr. Chairman, that this year is the time to undertake any changes. We feel that these are very basic questions. There are a number of studies underway that are intended to deal with these questions in a fundamental way. We think it needs to be done carefully. All of the implications need to be considered, including the pros and cons of using general revenues.

You will recall that we did recommend early on last year that this should be done. The Congress chose to do otherwise and we accepted that. We framed our income tax proposals in the light of that decision and put those proposals forward for this year. We think that if the social security system is reconsidered it ought to be done very carefully, and with all of these problems in mind—the question of coverage, the question of future benefits. The various points that have been made by the members of this committee in their opening statement need to be considered carefully rather than attempting a quick fix and a rollback only a few months after the Congress has acted to restore the proper reserve position and the funding of these trust funds.

Certainly the question of whether and how to preserve the link between costs and benefits, which has been the basis of the social security system since its inception, has to be kept carefully in mind; that is to be done for the retirement aspects of the system only or for all aspects of the system really needs to be borne in mind.

Now, let me just spend a couple of minutes, Mr. Chairman, on the causes of the concern in the Congress—which is a very real and a very understandable one, and we certainly understand it—the causes of the concern in the Congress over the present level of taxation and the suggestions by some that the amendments that were voted last year be either amended again or rolled back or suspended or modified in some form or other.

The concern arises from the fact that it is felt that for some taxpayers, the increases in social security will be excessive. In this regard, I am responding, I think, to Senator Haskell's concern that he expressed, namely, why do we say that the reductions in the income taxes should stand, whereas the regressive effects of making alternate reductions in payroll taxes should not be enacted this year.

Let me say in the first place, it was never intended, when the income tax reductions were put forward, that this be an offset to the increase in social security taxes. We did not frame our income tax proposals in that light.

We framed our income tax proposals in the light of what we considered to be the proper reduction for individuals as well as for busi-



ness, to provide, together with the spending proposals, the right stimulus for the economy, to continue to bring down unemployment, and to contain inflation.

It so happens that for virtually all income groups, or at least for the vast majority of income groups, the reductions in the income taxes that we have proposed offset, and in many instances more than offset, the increases in payroll taxes that were voted in 1977 and that will be in effect for 1979. So that, by virtue of the income tax reductions that we have proposed, most taxpayers will, in fact, have a net reduction in their taxes, if you take account of both the payroll tax increases and the income tax reductions that are proposed.

Second, as we can certainly discuss, Senator Haskell, the reductions in income taxes that we are proposing are quite progressive. They are virtually all concentrated at levels below \$30,000 so that, in fact, they do favor, as they should and as we intended them to, taxpayers at the lower and middle income level.

Taking account, therefore, of these two factors, the increases in social security taxes on the one hand—and it has to be borne in mind that most of these are due to 1972 legislation and not due to the 1977 legislation—but taking all of those into account and the offsetting reductions in income tax, we find, for example, that for the typical four-person family where there are two wage earners and the split is 50-50—up to practically \$36,000—\$35,791—there is no increase in taxes, and below that amount there is a net reduction.

When you take a 70-30 split, and you know you can have any number of splits, but just as another illustration, the break-even point is \$29,337, and 90 percent or more of all taxpayers fall below that level.

And the various tax tables that we have previously presented to the Congress which certainly would be available to you, Senator, indicate for each income group the net effect and illustrates the point, that in fact, in a very progressive way—

Senator HASKELL. Let me be sure that I understand what you are saying. You are saying that your recommendation, or the administration's, let me put it that way, for an income tax decrease for individuals gives them greater relief than a rollback of social security? I just want to understand what you are saying. Is that what you are saying?

Secretary BLUMENTHAL. No; I am not making a comparison. I am saying that the income tax relief for individuals that is recommended by the administration, being heavily concentrated at the lower and middle income levels, does, in fact, provide sufficient reduction so that, on a net basis, even after taking social security tax increases into account, the four-person two-earner families have a net tax reduction for incomes up to either \$29,337, if their is a 70-30 wage split, or \$35,791 if there is a 50-50 wage split.

And, if you take the 50-50 split, you will see that at \$10,000 of income, payroll taxes would increase by \$28 but income taxes would decrease by \$312. At \$15,000, payroll taxes increase by \$42, and income taxes decrease by \$258.

At \$20,000, the increase in payroll taxes is \$56 while income taxes would decrease \$270. At \$25,000, it is \$70 and \$320, and so on up to the break-even point of \$35,791.

In other words, I am merely dealing with the question of progressivity and regressivity. The income tax cuts that we suggested are highly skewed toward the lower and middle income groups, precisely the groups that you were concerned about and the groups that would, if we had not done that and concentrated on payroll tax deductions, similarly have benefited.

Senator HASKELL. Thank you.

Secretary BLUMENTHAL. Finally, I would like to say that the point needs to be made that there is nothing new in the notion—and we have had it, really, since the beginning of the system—that it is a trust fund in which the amount coming in should stand in some relation to the costs of the system. Moreover, the income tax system, as a whole, has always been more progressive, that is based on the ability to pay, than the payroll tax system has been. That is merely carrying forward what has always been the case.

But we have skewed our income tax reductions so heavily toward the lower and middle income group that in this particular instance it happens to offset, and more than offset, these payroll tax increases that were necessary in order to preserve the integrity of the social security system.

Now, we do not believe that the matter should not be considered. Indeed, the four or five commissions that have been working on this problem will do so. We will continue to work on it. I presume the Congress will do the same.

There are very serious questions to be considered: whether or not and how general revenues ought to be used; the question of coverage and how that is going to be resolved; the level of benefits; how closely the link between costs and benefits is to be preserved for the future and for what aspects of the program, that is for the insurance as against the more welfare type aspects. All of these are very serious questions.

We do not believe that there is any urgent need, in view of the President's tax proposals that are before the Congress, that these questions be resolved this year. At least for 1979, the vast bulk of taxpayers, in our view, are adequately protected. And it is for this reason that the administration recommends that this matter not be dealt with this year but be studied carefully and looked at at a future point.

Thank you, Mr. Chairman.

Senator NELSON. Thank you, Mr. Secretary.

First, let me say, as I know you understand, that the concept of using the general funds to support the retirement system or hospital insurance or disability insurance is certainly not new. Way back in the thirties, when the system was designed there were strong advocates at that time before disability was in the system, before hospital insurance was in the system, that the social security system be funded one-third, one-third, one-third, employer, employee, Federal Government.

Last year, as you made reference to, the administration supported the concept itself. The administration proposed, and the Senate concurred, that there be a differential rate applied to employers, I think for very good and sound reasons. I regret that it was not adopted in conference.

But the consequence of that would have been that the obligation against the fund would be reduced by raising the rate on the employer

because the obligation in the fund is determined by payments made by the employee, as you know.

Second, that increase involved the general fund substantially because it is deductible.

Further, the administration did support an insurance, a guarantee of the social security trust fund by the general fund by triggering infusions of general fund moneys when the unemployment rate went over 6 percent.

And then, a proposal that I made to the Finance Committee, without success, was also supported by the administration and that is that the increase in taxes in the 1977 law that would go into the hospital insurance trust fund be diverted into the retirement fund.

So, on those three points, the administration did take a positive stand in support of the principle of using general fund moneys for supports of some aspects of the social security system, specifically the hospital trust fund, which was recognized by the administration and others of us who supported that concept, that the hospital insurance fund reserve would be depleted by 1987; in any event, that it is almost a certainty, I think at least, that when a national health program of some kind is adopted, the hospital insurance fund will come out of social security and become a part of that.

Now, those of us who supported those concepts, including the administration, did not prevail last year. Now, we face an opportunity to do what the administration was advocating last year, and I, quite frankly, do not understand why the administration takes the position that it is not timely.

I think it is about at least 6 years late, in any event, but anyway, the opportunity now presents itself. There are several proposals, as you know, Mr. Secretary.

One that will be made, that makes the minimum change in the law as adopted last year, would provide that you leave the base rates as they were adopted in the 1977 law, but reduce the tax rate, either to hold it at 6.05 or reduce it to 5.85 by putting general fund moneys into the hospital-retirement fund, thus taking around \$6 billion of the proposed administration's cut, so to speak, and diverting it.

In other words, instead of having a \$23 billion tax cut or a \$23.5 billion tax cut, it would be a \$17.5 billion tax cut. That could be accomplished in a number of ways, by proportionately reducing the tax cut proposals the administration makes to personal income and for corporate income.

Having made this long, Shavian preface, let us talk about the real world for a moment. The Budget Committee of the House recommended yesterday a \$7.5 billion infusion of general funds recommended to go, as I understand it, into the hospital insurance program which would be equal to about 25 percent of the hospital insurance program.

It appears that the Congress is going to act, in fact it looks like almost a certainty on the House side, at least if I can trust Tip O'Neill's judgment. He said something would prevail three to one. Now, my query is, what would be the preference of the administration if, in fact, something is going to happen?

Secretary BLUMENTHAL. I can only respond, Mr. Chairman, by saying that the preference of the administration and the position of the

administration continues to be the proposal that we have made before the Congress with regard to the President's tax reform program, which includes some important reductions.

The Budget Committee's action implies changing that by reducing the total amount and by diverting some of those funds into the reduction of payroll taxes, as I understand it. That is not what we are recommending. We do not favor that.

Now, if Congress were to enact a payroll tax cut—of course, I cannot, at this point, predict what the President would do in that situation. I said at the outset when I presented the President's proposals to the Congress that tax policy is a two-way street and that we intend to work closely with both Houses of Congress to fashion a tax program that is acceptable and sensible, and we will do that with regard to anything which emerges from the Congress.

But our preferred position, and the one that we maintain and the one that we urge upon the Congress, is that which the President sent up here and which I am presenting.

Let me, in that regard, comment on the very good question, Mr. Chairman, and certainly very understandable one that you raise, which is, if you proposed that last year, why are you opposing it now?

Senator NELSON. I did not propose it. I supported you last year.

Secretary BLUMENTHAL. What I mean is, if the administration, proposed it last year, why are we now—as I understood your question—why are we now opposing taking action, for example, that would be very much along the lines that we proposed last year. I understood that to be at least an implied part of your puzzlement over the administration's position. Am I right in that?

Senator NELSON. Yes; if it was good enough for you 8 months ago, why is it not good enough for you now.

Secretary BLUMENTHAL. I would say that there has been a certain amount of water over the dam. The Congress has acted. The Congress did not act, did not see fit, to adopt the administration's proposal. The Congress, in its wisdom, adopted another set of proposals.

In the light of that, the President then moved ahead and sent to the Congress an income tax reform and an income reduction proposal.

We are now in the month of April. We do not believe that a further change in payroll taxes, given the fundamental issues which need to be addressed, which I have commented on in my testimony, can be adequately done this year with the amount of time available.

There is no implication in our opposition to making changes this year that we oppose their being made at some future point. There is no implication, either pro or con, to the use of general revenues under certain circumstances. I may have some personal views on this, but as far as the administration is concerned, there is no implication that we are thereby saying we are unalterably opposed to general revenue financing. Obviously, we are not, because last year we did propose a solution that included general revenue financing, as you correctly pointed out.

The fact is we already have a \$60 billion deficit, and we do not wish to enlarge it. We consider the income tax proposals important. We do not want to cut down the reductions for business or for individuals because of the need to stimulate investment and productivity in this

country. We think that is very important, as well as to restore some of the profitability to American industry, and we want to make sure that the next change in the social security system is a comprehensive one and a well thought out one; it is for that reason that we just do not think that this is the year to go ahead with it.

Senator NELSON. I think I have taken more time than is the general practice in this committee. The Congress has rethought its position and now we are trying to join you in your fending them off. I would think you would welcome them with open arms.

My question then really is, if you are going to get runover by a truck, in what position do you want to be lying when they run over you?

Secretary BLUMENTHAL. I think we do not accept the inevitability of the truck running over us. We feel that it is important to concentrate on convincing the driver that safe driving is of importance in this matter and that arriving at a certain point a little later by reducing the speed limit and observing all of the roadblocks may be the better part of wisdom.

Senator NELSON. OK. You cannot talk to the driver unless you get in the cab with him.

Senator Long?

Senator LONG. Mr. Secretary, up until now it has been my thought, as a member of this committee, that we could find the votes to raise the money to pay for social security benefits including benefits under the program that is right now a runaway program, and that is the disability program. It is a runaway spending program. It is already exceeding the estimates by three to one and it is projected to go worse than that.

In the past, we could find the money to pay for these social insurance benefits on the basis of telling the Senate and the House that if you want these benefits, you are going to have to vote for the tax to pay for it. In England—I wish you would check this out, I think you will find it correct—in England when they started financing their social insurance benefits by just adding them to the deficit, by just telling the Chancellor of the Exchequer to print some more pounds, their government got into very serious problems and they are still trying to extricate themselves.

Up until now, we have been able to control the spending under this program by saying that the taxes must be there to pay for the benefits. Some years ago one of our dear friends who was running for reelection that year had himself an amendment to provide some additional benefits of a type that we do not have now. Partly on a personal basis and partly on the logic of his case he found enough votes to add this new type of spending to the social security program.

I went to him thereafter and I said, now, if you want that amendment to survive the conference between the Senate and the House, you had better find yourself a tax to pay for it. I told him that when we get to the House, those people are going to tell us that they have to run every 2 years and if they have the courage to pay with taxes for what they are recommending, they are not going to let us, we people who only one-third of us are running for office every 2 years, get away with handing them a bunch of giveaway provisions which are only paid for out of printing press money.

As it happened, that particular Senator, having made his fight and having prevailed by a fairly thin margin, did not see fit to offer the tax to pay for it, and so it was dropped in conference.

Members of the Congress can understand that. If you really think something is worth doing, you ought to be willing to vote for the taxes to pay for it, and that is the discipline of this program.

We probably have available to us, just in proposals presently before us, every one of which I would like to vote for, another \$200 billion of spending in social welfare areas. If we vote for them are we going to pay for them by telling the Federal Reserve to print the money? Let's face it. You talk about paying out of general revenues—there is no general fund to pay with. All there is is a printing press down at the Federal Reserve Building. If we are going to try to pay for it out of Federal Reserve printing, that is very, very inflationary, and the polls nowadays are beginning to indicate that the people are more concerned about inflation than they are about taxes.

If I am going to try to help my friends in the House get themselves reelected, or anybody else who is running here get himself reelected to office, am I doing him any favor when I get him out of the tax trap and put him over in the inflation trap—so that instead of trying to explain why he voted for the tax, now he has to explain why he did something even more unpopular, gave us runaway inflation?

It would seem to me that we would be better off if we want to do this type of thing to say that here are certain type of benefits that were supposed to pay for themselves. If you think it is worth doing, let's put the tax on to pay for it.

My attitude with the administration, from the President on down, about this same problem is to say that I will vote for whatever tax it takes to pay for these social security benefits, including whatever it takes to make that program solvent. We have the responsibility to fund and pay for the benefits we are voting here.

There was a time when we could get away with this kind of thing. We were working on a different actuarial basis. We were supposed to build up a trust fund of \$200 billion. In fact, during that time, we could simply change the assumptions and pay out additional benefits. We could do all kinds of nice things, give people a 20-percent increase that nobody had planned on, and then say, that is not enough, somebody wants to make it more than that.

But then we got in the position that this fund was not supporting the Government. So we voted a tax increase last year. Now, is your administration going to be fiscally responsible to the extent of bringing us policies where we are going to pay for these huge spending programs, or are you going to bring the programs up and say, well, just print more money down at the Federal Reserve?

Secretary BLUMENTHAL. Senator, this administration is fiscally responsible. The President feels very strongly that the importance of reducing the budget deficit is critical. He feels very strongly that the problem of inflation is a serious one. He is very concerned about it. He is addressing himself very actively to a number of measures to counteract the inflationary problem. He certainly is not going to propose spending programs and pay for them—by using the printing presses.

And may I just inject, since I am supposed to protect my turf, that the printing presses are located in the Bureau of Engraving and Printing and not in the Federal Reserve, although they have something to say about the speed with which they run. The actual printing occurs, I am sorry to say, under the responsibility of the Treasury. I feel I have to say that or my colleagues over there will read me the riot act when I come back.

But the President feels very, very strongly about exactly the point that you raised, and I think you can be assured that he will insist on fiscal responsibility, on counteracting inflation, and on the reduction of the deficit as quickly as possible.

Senator Long. Let me tell you a more serious problem that you are facing than just this fight about this particular legislative proposal. The House would not pass your debt limit bill for you when it came up. All you could get was a simple extension of the existing debt limit.

Now, there are some of us who have, down through the years, gone in there and said it would be highly irresponsible not to pass that debt limit bill, that we have voted for these things that make the debt limit go up and that we ought to pass the debt limit bill in order to pay for the spending for which the Congress has voted.

But to expect the conservatives and the moderates to go along with that type of thing, it would seem to me that you are going to have to present a good faith appearance on your end of it that you are being responsible in what you are recommending down here.

Now, if you do not want to do it that way, I can very well see both the House and the Senate giving you a real challenge on that debt limit bill. I know what will happen then. Over a period of time, something has to give. But for awhile nobody gets paid, or the Government has to operate without money, and both sides try to explain to the public that this is something that is just horrible but it is the other guy's fault. I do not think anybody is the winner out of all of that.

It seems to me that if this administration is going to go along with policies which, over a period of time, could be disastrous, responsible people up here who disagree with you on that type of program would be well-justified in taking you on, on that type of a challenge.

I would hate to see it happen, but I could understand that if people feel that your policies are irresponsible and are going to lead us to a fiscal disaster, they might very well say that if that is the case, they are not going to vote for that debt limit. Let's just not pay anybody, from the President on down to the lowest employee or the people on welfare. Let's just have a confrontation about this thing because we are headed for disaster.

I would think that that is about the last thing that this administration needs right now. I think you have enough problems without that. But that is the type of challenge that I am afraid you are in for. You are getting it in the House already, and I would say that as one of those who has led the charge to pass your debt limit bills. You are in trouble in the House with it already and when those Senators and those Members of the House who feel that the Federal Government is being irresponsible and is running up more and more deficits without jurisdiction and without finding ways to pay for them, feel that the administration, from the President on down, is letting them down on

the issue of fiscal responsibility, then it seems to me it is time that they have to start looking at what is available to them to resist. You have to pass a debt limit bill to pay out a deficit for more and more spending programs.

I would hope that we could work together on a basis that whatever we want to do in addition to this \$60 billion deficit, we do on the basis of finding some revenue to pay for it.

I have enough trouble voting for the Panama Canal without having to go in there and carry the burden of more taxes, but I am willing to do that type of thing provided that it is necessary and that what we are doing is worth spending the money for. In the last analysis, should that not be the test of a new spending program, whether we are willing to pay for it?

Secretary Blumenthal

Secretary BLUMENTHAL. I fully agree. I fully agree. I think inflation is the most important problem that we have. It impacts on the situation of the dollar, which is of great concern to the President and to me, and I think everything that you have said not only is in full accord with my own views, but I think you would find that the President is equally on your side in that kind of philosophy.

Senator LONG. Thank you.

Senator NELSON. Well, Senator Long, you have been a very good witness. I agree with all of your testimony.

Senator LONG. Well, I am glad you agree, Mr. Chairman.

Senator NELSON. I agree with everything you have said and I do not think it is in conflict with anything that is being proposed. If the administration is going to cut \$33 billion in taxes, social security taxes are taxes, personal income taxes are taxes, corporate taxes are taxes, they are all taxes. And the consequence is similar, with a few differences. The social security tax, at least, cuts down on the inflation better than the income tax does.

But, in any event, I do not see that they are in conflict. If there is going to be a tax cut, to say that there is something special that costs the general fund more money if you cut social security taxes than it does to cut personal and corporate taxes, I do not quite follow you.

Senator Haskell?

Senator HASKELL. Mr. Secretary, you talked about inflation—

Senator LONG. May I just say one more thing? Take as an example a runaway spending program, the disability insurance. That program was supposed to be costing about a third of what it is costing. It is projected to cost about \$14 billion now, but the way it is going it could be costing us \$50 billion.

It has been proposed that we take that program and put it outside the social security program and then take health insurance, which could easily cost \$80 billion, and put that outside the program, \$80 billion is not all that program could cost—total expenditures on health are about \$180 billion a year.

If you put the two of them together just those two could cost \$200 billion, unless you are going to exercise fiscal restraint with regards to them. It has been proposed to put those over a category that we are just going to finance those out of the deficit. It does not impress me to say we are paying for it with an income tax. That is not the proposal. We are



not raising that much money with an income tax. We are talking about paying for it out of a deficit where we take that away from a category where it has to be paid for with taxes and put it into another category, to take it from a solvent fund and put it into a bankrupt fund, which you are going to pay for out of printing press money. That is not going to solve the problem. That is what bothers me about it.

Senator HASKELL. Mr. Secretary and my colleagues, I think that Senator Nelson is right—taxes are taxes. The question really is, in my view, is which taxes should be reduced and which should not. It seems to me that that is the problem.

Now, there is a great concern about inflation and the various indicators would lead us to believe that increased inflation is on the way. It seems to me—and I would like to get your view, Mr. Secretary—that an increase in social security taxes, which we have, is far more inflationary than a rollback could with a smaller income tax cut. In other words, Congress is about to admit it laid an egg last year, and that you folks were right, and it would occur to me that an increase in social security taxes, which will obviously be passed on in the form of cost of goods and services, has a more inflationary impact than leaving, for example, the income tax where it is.

Would you concur with that view, or would you differ with it?

Secretary BLUMENTHAL. Senator, if you were to take \$5 billion in reductions from the income tax reduction proposals and shift them to the social security reduction, leaving aside the administrative complications that we previously talked about, and if the split were to be even between employers and employees, we estimate that the impact of that action, without taking into account other factors on the GNP deflator, would be roughly to reduce that deflator—would be anti-inflationary as you suggest—by somewhere between one-tenth and two-tenths of 1 percent. In other words, a very, very marginal decrease.

I cannot resist the temptation in echoing the great concern that we have with inflation, and that I personally have with inflation, to draw your attention to a farm bill that is presently making its way through this Congress and, I believe, through your body, the impact of which on inflation, by some calculations, would be 20 to 30 times as much as the shifting of that \$5 billion from one type of tax to the other. And, when you further bear in mind, and that is my last point, Senator, that by reducing the income tax reduction, particularly as they affect business, and clearly there would have to be some reductions there as well, and thereby restrict the ability of business to expand capacity as we get closer to capacity limits, that has an inflationary impact, because it begins to speed the day when we hit bottlenecks in the economy, bottlenecks that may well offset, or more than offset, the one-tenth to two-tenths of 1 percent reduction that the statistics, according to the Congressional Budget Office, I believe, indicate that this thing would do.

Senator HASKELL. Well, Mr. Secretary, a hearing is not a very good place to indulge in economic argument, but I would mention this, that you have indicated previously that people generally will be better off with your income tax reduction than under Senator Nelson's rollback of social security taxes coupled with general fund financing of

HI and DJ. I think the Congressional Budget Office is going to come up with some different figures.

So, let's leave individuals aside for the moment. Let's just look at your suggestions on the business side.

You have suggested corporate rate reductions. My figures would indicate that 78 percent of this relief will go to concerns with annual profits of \$10 million or more and that unincorporated business would not benefit.

It appears to me—but I am sure you probably will differ—that it is far more equitable to roll back last year's social security tax rate and wage base increases when you are looking at the business sector as a whole, when you are looking at the small business sector, the unincorporated business sector, and it does not appear to be equitable to give, just talking about the business sector, 78 percent of the relief to entities making \$10 million or more.

Now, I do not know what your viewpoint is. Obviously, you have made the proposal so you have the rationale, and I would like to hear your rationale.

Secretary BLUMENTHAL. The business tax proposals involve many elements, some of which will be of considerable benefit to small business and unincorporated business. They also include, and I think that needs to be mentioned, a liberalization of the investment tax credit which is available to all—

Senator HASKELL. But which, by and large, benefits the very large corporations. I think you would agree with that, Mr. Secretary.

Secretary BLUMENTHAL. Well, it would benefit anyone who makes an investment.

Senator HASKELL. Percentagewise.

Secretary BLUMENTHAL. Well, we have more companies in this country, or rather more of the business of this country, in absolute dollar terms, than is accounted for by larger economic entities. But if, for example, we take the income tax reductions, the four points to which you have referred, two of those are at the bottom end, so small companies, up to \$50,000 of income, would get a full 10-percent reduction in their income tax, which is more percentagewise than what the larger ones get. So it is skewed, again, toward the small ones.

We have liberalized the tax treatment for small business in a number of ways. So, I really think there are some benefits there, but it will encourage, in our judgment, the investment in productive facilities for all companies, large and small, incorporated and unincorporated, and that will generate more revenues in this country with which to pay for some of these benefits that we deservedly want to make available to others.

Senator HASKELL. Mr. Chairman, I have no further questions. I just cannot see, Mr. Secretary, just taking the business sector, giving 78 percent of the benefits to corporations making over \$10 million or more when, in this country, as I think you know and you might agree, that small business employ about 53 percent of the private work force and produces about 50 percent of the productive capacity of the country.

And yet the administration is providing 78 percent of their benefits to the very large corporations. It seems to me far more equitable simply to roll back social security taxes because then all business—

Secretary BLUMENTHAL. Senator, I would be happy if that were of interest to you, to submit to you and for the record a listing of all those parts of the President's tax program which are of particular benefit to small business. There is quite a list of them and I do not want to take the time to go into all of them now.

One particular one that I think needs to be included in the statistics is the recommendation that is now a part of the President's urban proposal to provide a targeted job tax credit that is of particular benefit to small companies and very much favored by them.

So, I think if you take the totality of our tax program and all of the elements that are targeted to small business and the independent businessman, I think you would be satisfied. And, I will, with your permission, submit that list to you for the record. We would be satisfied that we have not neglected the very statistics which you cite.

[The following was subsequently supplied for the record:]

The following items in the President's 1978 Tax Reform Program are of particular benefit to small business:

1. We propose to reduce the normal rate of tax on corporate income. The rate will be reduced from 20 percent to 18 percent on the first \$25,000 of income, and from 22 percent to 20 percent on the second \$25,000.

2. We propose to make the \$50,000 surtax exemption permanent. The surtax exemption is now scheduled to revert to \$25,000 for taxable years ending after December 31, 1978.

3. We propose to simplify and liberalize the rules (subchapter S) that allow small corporations to be taxed in a manner similar to partnerships. We will allow subchapter S corporations to have more shareholders and more different kinds of shareholders. We will also make it possible for a subchapter S corporation to carry its losses over into the future. In addition, we will act to mitigate the consequences of inadvertent technical errors made by a subchapter S corporation.

4. We propose to make it easier for an investor to deduct losses on stock in a small business. We will double the amount that can be taken as an ordinary loss on stock in a small business in any one taxable year. Among other changes, we will make it possible for corporations and trusts (and not just individuals) to take ordinary losses on small business stock.

We are proposing a new, simplified method of depreciation for small business. Although the emphasis is on simplicity, this new system affords small businesses the same tax advantages enjoyed by the largest corporations.

6. Our several proposals to tighten up on tax shelters will help to make it easier for small business to raise the capital it needs.

7. We propose to eliminate tax concessions such as DISC and deferral that place small business at a competitive tax advantage.

8. We are proposing a targeted jobs credit that will be of particular benefit to small business.

Senator NELSON. Thank you.

Senator DANFORTH.

Senator DANFORTH. I think my principal problems with your statement is that your statement is just not true.

Secretary BLUMENTHAL. It is not true?

Senator DANFORTH. It is not true.

The administration has ballyhooed its tax cut proposal with a tremendous amount of public relations. You come here before us and make these tremendous claims about how middle-income people are going to be paying less in taxes as a result of the administration's program. The President goes before Congress in the state of the Union message and says that 96 percent of the taxpayers are going to be paying less taxes rather than more as a result of this program and the

fact of the matter is that it is not true, and the reason it is not true is that you have talked only about social security tax increases. You have not mentioned the effect of inflation in pushing people into higher brackets.

And when you compute both the effect of what we have done in social security tax increases last year with previous social security tax increases that have already been programed together with the effect of inflation's putting people into higher brackets it is not true that most people are going to be paying less taxes. Most people are going to be paying more taxes.

The only people benefited by what is happening, by the year 1980—and it is going to get worse as years go on, because inflation continues to put people into higher and higher brackets, more each year—but by 1980, the only people to benefit by the composite of what we are doing are people earning between \$7,600 and \$12,500. And families of four that are earning more than \$12,500 each year by 1980 as a result of the combined effects of your proposed tax reduction together with social security tax increases and the effects of inflation, are going to be paying more, not less, in aggregate taxes.

I would like, at this point, simply to set the record straight on that fact.

Secretary BLUMENTHAL. May I respond to that, Senator?

Senator DANFORTH. Certainly.

Secretary BLUMENTHAL. In citing the figures which I did here this morning, I was referring to the combined impact of social security tax increases that have been passed by the Congress and the recommended reductions by the administration in the income tax; I cited the next impact of those changes without taking account of inflation.

We have previously submitted figures to the Congress, taking account of inflation and I will be glad to give you one or two illustrations of them.

Senator DANFORTH. You give me yours and I will give you mine.

Secretary BLUMENTHAL. Yes, sir.

As prepared by our Office of Tax Analysis, if you include both the increases in social security, the recommended decreases in income tax and the impact of inflation for 1979—I do not have it for 1980—for 1979, the next impact of that for a four-person family, two wage earners, was a 70-30 split at \$10,000 of income, is a net \$129 tax reduction. At \$12,000, it is \$102; at \$15,000, \$90; at \$17,000, a \$37 reduction; at \$20,000, \$47; at \$25,000, \$31: the break-even point is at \$26,212.

Now, we have similar tables available for you, Senator, that lays this out for other areas, but I want to hasten to join you in agreeing that taking inflation into account as you go out to 1980 and to 1981 and you assume that no further action on taxes is taken, which is not necessarily what the administration is recommending, and on which no decision, obviously, at this point has been made or can be made, you are quite right that increasingly, these excessive rates of inflation that we have been experiencing in this country are going to push people up into brackets where they are in the hole, which is one of the reasons why Senator Long is absolutely right in pointing to the problem of inflation. I know that Senator Byrd has talked about it at great length for a long time. I agree with both of them; I agree with you.

That is why this is such a critical problem, and why the President is right now, addressing himself very centrally to that issue. We must bring the rate of inflation down and we have got to look at the impact of inflation on taxes as we go along, and there will be an opportunity to do just that, and to have an impact in 1980 and 1981.

Senator DANFORTH. I think it is fair to look at all of the ingredients in this, not just some of the ingredients, not just to look at the effects of social security tax increases, but the effects of inflation's putting people into higher brackets. Not to pick the most favorable figures imaginable, but to pick the most realistic figures and look not just at 1979 but look at 1980, and that is what we are talking about.

What we are going to be doing in tax policy this year is going to be affecting 1980. I mean, it takes awhile to pass a tax bill and my computations indicate that the break point for a family of four is \$12,500 and that, for example, if a family of four, which earns \$18,000 would be paying \$135 more by 1980 than it paid last year, and so on, and it gets more and more exaggerated as you go up.

I just wanted to make that point to you, that I just think that the kind of representations that the President made in his state of the Union message and that you made before us today are really untrue in that they pick out the most favorable possible facts and they totally ignore the effects of inflation on tax brackets.

Secretary BLUMENTHAL. Senator, I must ask for permission to say another word on this. I think that the administration cannot be justifiably accused of providing insufficient data, or incomplete calculations, with regard to the tax program.

We submitted to the Congress, and we put out to the public and to all interested parties, voluminous data that provide all kinds of calculations, taking into account the kinds of issues that you have mentioned here. I would therefore, respectfully suggest that when the President says that 96—and what he said, I think, has to be carefully seen and examined—that 96 percent of the recommended reductions in income taxes for individuals will go to people who earn less than \$30,000 a year. That is a correct statement, and that statement was made in order to demonstrate that the reduction on income taxes alone was not intended to provide major benefits to high income people but was concentrated on the lower and middle incomes.

You can say look at 1980, look at inflation—and we never pretended that this program was designed to deal with the inflationary impacts in 1980.

Senator DANFORTH. I have other questions that I want to get to. I just wanted to make a very simple point here. To reiterate, the whole tone of the PR statements made by the administration prior to the President's tax message, the whole tone of the President's own comments at a press conference the week before the state of the Union speech in which he said that tax cuts will offset for social security increases and will offset for the effects of inflation, the whole tone of the state of the Union message, and the whole tone of the tax tables that were released and printed in the newspapers on the front page after the President's tax message was released, were absolutely misleading and false. And the fact of the matter is that by 1980, which is the year after next, most people in this country are going to be paying more to

the Federal Government rather than less, and I think that that is a point that has to be made openly and honestly to the American people.

Secretary BLUMENTHAL. Senator, I just cannot agree. The issue before us this morning, as I understand it, is whether or not in the remainder of this year, it is necessary to make a downward adjustment in social security taxes.

I am here to say that the administration does not believe that it is necessary that this be done this year, but I have equally said that this is an important matter and it needs to be looked at carefully and can be looked at next year, which gives us time for 1980.

I really think that we are, in no way, trying to mislead anyone. We made it very clear that the impact of all taxes, all Federal taxes under this proposal for 1979, is to keep them at roughly 14 percent of personal income. We never pretended, and we never indicated, that it would remain that way as we move into 1980, 1981, and 1982 if no further action is taken, which is what you are saying.

Of course, we are all pushed up into higher brackets and, of course, that would be an unfavorable development, and one that the administration is not suggesting. But to accuse us of being misleading or of doubledealing really is somewhat unfair.

Senator DANFORTH. Well, Mr. Secretary, it is not my style to run around making a lot of accusations about people, and I do not want to keep beating this particular dead horse, but I will say that I did feel that it was misleading, and I did feel that it was inaccurate and unfair to the American people to lead them to believe that they were going to get tax relief when most of them, in fact, will not, and that is my only point.

I would like, if I could, to move on to some other subjects with you.

You go on for about three pages in your statement here telling us how we need more studies before we do anything on social security. Now, has this whole area not been studied to death by this point? Do we not have studies and reports that are coming out of our ears on social security financing?

Secretary BLUMENTHAL. I really think that the issues involved here are quite complex and there is not a full agreement, nor even a full understanding, on the issues and underlying facts involved with regard to the question of coverage, with regard to the question of integration of private plans, with regard to the likely impact of hospital cost increases; and the Congress itself has commissioned bodies to study these matters and report to it. So has the President.

That having been done, and on the basis of a judgment by the Congress as well as the President that more information and advice is needed by experts in this field, I was merely suggesting that we did not need to rush into making decisions, fundamental long run decisions this year. But that since these data are becoming available from people who really know this field well, it would be wise to take their findings into account as we make fundamental decisions.

Senator DANFORTH. I will tell you what my concern is. It is that I think we probably do have a basis for reasonable judgment about the long term problem of social security on the basis of numerous studies which have already been done. What I am concerned about is that we are going to rush into a short term, kind of a band aid quick fix ap-

proach to social security which we will tell ourselves will last a year or two or three until we study the thing, and then it is going to have two effects—one, it is going to be like a shot of novacaine. It is going to release the pain and, therefore, it is going to relieve the pain temporarily, and, therefore, it is going to relieve the pressure for significant reforms and changes in social security financing, and that is a very real concern.

Second, I think there is a tendency for short term quick fix solutions to become the long term solution, and that frankly, is what concerns me about the kind of rush-rush approach that we are taking now.

Now, I would like to ask you just a few other questions and then I will—I am sorry I have taken so long.

Secretary BLUMENTHAL. May I say that I agree with you on that, since I am delighted to agree with everything that you have just said.

Senator DANFORTH. Thank you.

Now, there have been some reports—I think Congressman Ullman has taken the position that perhaps the crude oil equalization tax can be used to finance social security, and I think yesterday the New York Times reported that the administration was considering that. Is that correct?

Secretary BLUMENTHAL. No, sir, we think the COET is needed on its own merit and our position on the opening up of social security taxes this year is really the fundamental way in which we look at it. We are not sure how that would work. We do not know how much revenue would be available. There are all kinds of suggestions that have been made for the use of revenue from a COET tax. It is very difficult for us to tell exactly how the two things would be linked. It is not our preferred solution to the problem; we are not recommending it.

We think a COET tax ought to be passed. If the Congress passed the COET tax and saw fit to link the two things, we would certainly look at it.

Senator DANFORTH. But you would not think that that would be a tradeoff for social security financing?

Secretary BLUMENTHAL. We are not recommending that, but if the Congress did that, we would look at it.

Senator DANFORTH. Under Senator Haskell's line of questioning, it would be, in fact, the substitution of one regressive form of taxation for another regressive form of taxation, would it not?

Secretary BLUMENTHAL. It could be put that way. I think, however, that the COET tax is of critical importance. I must say, Senator, that the continuing weakness of the dollar, which is of great concern to all of us, and should be, to all Members of Congress, which undermines political as well as economic stability in this country and around the world, is, in considerable measure, due to both fears of inflation in this country as well as the absence of an energy program.

The COET, in my judgment, is a critical part of an energy program, so I would hope that that tax, although it has regressive elements, be passed, for it is absolutely essential.

So, you think we should consider it as we have, on its own merits, and we have rejected it on its own merits, rather than view it as a way of financing social security?

Secretary BLUMENTHAL. Well, I certainly hope that you will not reject it.

Senator DANFORTH. We already have.

Secretary BLUMENTHAL. I would hope that before this matter is disposed of, that you would reconsider it and that you would pass a COET tax and I would think that the failure to do so, in my judgment, involves serious risks.

Senator DANFORTH. Mr. Chairman, could I just ask one more line of questions? I am sorry I have taken so long.

Senator NELSON. I wonder if you would allow the other Senators some time first?

Senator DANFORTH. Surely.

Senator NELSON. Senator Byrd?

Senator BYRD. I want to make two brief observations. I am convinced that social security is more important to more people than any other Government program. The Congress and the administration have a deep obligation to the American people to be sure that what we do in regard to social security is a soundly based program.

I think it would be a cruel hoax on the elderly of our Nation and those who will become elderly if we handle the social security financing in a cavalier way—the way that we often handle the general operation of Government.

The second comment I wanted to make is that we were talking about increases in taxes. The Government has a tremendous amount of money that is being misused. It is not in your Department, Mr. Secretary, but you are part of the same administration.

I was appalled and astonished, I might say, when the Inspector General of the Department of Health, Education, and Welfare issued a report this week stating that HEW misspent in 1 year between \$6.5 billion and \$7.5 billion. That money was misspent, according to the Inspector General, through waste, mismanagement, and fraud.

Now, if the administration would get that Department under control, if the administration would save that \$7 billion which, according to its own Inspector General, is being misspent through waste, mismanagement, and fraud, that would go a long way toward taking care of some of these financial problems that the Government has and would make the discussion about additional taxes somewhat moot.

So, I realize, Mr. Secretary—it is not your Department, and I do not address that to you, but to the administration in general.

Secretary BLUMENTHAL. May I just comment on that point, Senator, that I am sure that everyone, from the President on down in the administration, is just as appalled by instances of waste, mismanagement, and fraud as you are, and while I am not acquainted with this report and Secretary Califano would obviously want to respond to it, I know that he is doing an excellent job in seeking to manage his Department—it is a large one—and he is working very hard on precisely these kinds of issues. But I am sure he will want to respond to it in more detail.

Senator BYRD. Well, that is such a gigantic figure that most of us cannot comprehend it—\$7 billion. I did check the amount of revenue that the Federal Government receives from income taxes by States, and I find that that figure of \$7 billion is twice as much as the 5 million people of Virginia pay each year in Federal income taxes, and Virginia has the 12th largest population of any State in the Union.



I also find, in looking over the revenue figures showing personal income taxes paid into the Federal Treasury, that the total income taxes from 15 different States combined only equals \$7 billion, the amount which HEW misspent through waste, mismanagement, and fraud.

Thank you, Mr. Chairman.

Senator NELSON. Senator Dole?

Senator DOLE. I just have two questions.

I understand that the administration thinks we should not do anything this year on social security tax rollbacks, is that correct?

Secretary BLUMENTHAL. That is correct, Senator.

Senator DOLE. And if the Congress did, in its wisdom or lack of it, pass a tax rollback, would you recommend that the President sign that or veto it?

Secretary BLUMENTHAL. I really cannot say, Senator. I tried to make it very clear that we are opposed to any action this year. We do not recommend it, we do not wish to see it this year. I think there are important matters to be considered here and they ought to be carefully done.

If the Congress, nevertheless, acted, obviously, the President and all of us would have to look at it and then make recommendations in the light of what we see; but we recommend that it not be done.

Senator DOLE. You indicated your sympathy and understanding about inflation and the fact that many American taxpayers are pushed up into higher brackets because of inflation. Can I assume from that that you would support indexing?

Secretary BLUMENTHAL. I do not support at all, Senator, a mechanical or formal indexing built into the tax system. I think the evidence and the experience of countries that have gone down that road indicate that it is probably the death knell to efforts to try to get inflation under control for it builds it into the system. It is very hard to get off this once it has begun.

Every finance minister that I have talked to has said to me, do not allow your country to get into that situation.

What we have, in fact, is a different kind of indexing, if you want to call it that. We have the Congress of the United States which every so often, every couple of years or so, takes a look at the tax system and measures the percentage of personal income that is accounted for by Federal taxes and makes adjustments.

And, indeed, the proposals that we are making to the Congress this year, as I just indicated, would keep that percentage about steady through 1979.

Without those proposals, we would, in fact, be increasing the tax bite for the American taxpayer even in 1979. So I think that is greater flexibility that allows all of us to look at particular circumstances and make adjustments as needs be. I prefer that kind of indexing.

Senator DOLE. One thing indexing would do is deny Congress the chance to cut taxes. We always like to cut taxes in even numbered years. We probably would not have that opportunity if we had indexing. It would avoid that ritual.

I am interested in your remarks on the jobs tax credit as it relates to the urban program. I know the urban program would help small

business. I recall your recent appearance before the Budget Committee where you indicated some displeasure with the program, and indicated the administration was not really implementing the jobs tax credit program.

Is there some drastic change in the proposal in the urban program? Is it targeted? Is that the reason you can now support it because it is targeted at the hard-core and unemployed young people?

Secretary BLUMENTHAL. Senator, the jobs tax credit was passed without the support of the administration. We did not recommend it last year. It is not that we did not implement it, but that we felt that it probably did not have a significant impact in increasing employment.

Clearly, if it did, it would have that impact primarily for small business, for labor-intensive business, and that is why I cited it.

Now, the particular proposal that we have made is to take the existing program as it is on the books and to alter it somewhat in order to target it on the inner city and emphasize hard core unemployment and incremental employment. We will not know for some time whether that will have an impact. We hope it does.

Therefore, we certainly prefer this approach, as part of our effort to help revitalize the cities, to the existing jobs tax credit which we do not think would have that effect.

Senator DOLE. I share that view and I think that was the intent. Perhaps the suggestion made by the President, and by you, Mr. Secretary, will keep.

Finally, I think every Member of Congress has at least introduced one bill, either on social security, a tax credit or tax reduction, someway to escape the wrath of those who will be paying increased social security.

We have not adopted any bill that would add Members of Congress to the system. We have introduced a lot of bills that would make certain that everybody else would be taken care of or at least would not have to pay the big tax increase. We do have a social security rollback. I understand there may be an amendment offered to include the Social Security Administrator in the social security system, and perhaps Members of Congress.

All of the efforts to find revenue to take care of the rollback, it has been suggested that the Congress pass this awful crude oil equalization tax. Others have suggested an import fee on imported oil of \$5 to \$6 a barrel as a way to pick up revenue to offset the cost.

Has that idea had any support?

Secretary BLUMENTHAL. Senator, the President's strong urging on the Congress continues to be that the Congress enact some energy legislation with an equalization tax. I can only add that, from where I sit, the situation of the dollar is serious. I think that it is something that all of us should bear in mind and we need to deal with it.

Senator DOLE. Is the President thinking of just passing an energy bill, just to say we passed a bill? Why do we not just pass the three bills finished and let the world know that we have passed some energy legislation so the dollar would be sound.

Secretary BLUMENTHAL. We need two things. We need a fight, a real fight, against inflation and we need effective energy legislation

that shows the world that we have the will to act and that shows the world that there will be a reduction, either in energy imports or at least on the rate of increase in imports that we have been having.

It is our considered judgment, Senator, that without the tax, that argument is difficult to make.

Senator DOLE. The tax does not produce any more energy.

Secretary BLUMENTHAL. Well, it is not all that needs to be done. I am fully in accord with those who say that, in addition to that there needs to be more emphasis and additional consideration of legislation of ways to stimulate production in this country, but you need to do several things.

You need to conserve, you need to produce more energy and you need to restrain the urge to import and consume as much as possible. The fee would be a very poor alternative. It is certainly not one that the President would like to do. It is simply that the overall international situation is such that he simply needs that legislation.

So I would urge that the Congress—

Senator DOLE. Is there a possibility as an alternative, maybe to pressure the Congress, the President might impose an import fee of \$5 to \$6 a barrel? That suggestion appeared in the media.

Secretary BLUMENTHAL. It has been suggested to him. He has made no decision on this matter, Senator. In any case, I do not really believe that he would ever do this in order to pressure the Congress. I think the only circumstances under which he would even consider that—and, as I say, he has not really made any decision on this at all—would be if he feels that the international situation, the situation with respect to the dollar, is such that he has to act.

But that is not a decision that he has made, and he continues to feel, and I certainly want to echo him in this, that what is most urgently needed is speedy consideration of the energy legislation including the COET and getting it disposed of.

Senator DOLE. Three pieces of the energy plan have been tentatively agreed on and could be acted upon now by the Congress. They are the ones that save the most energy. Maybe it would help, to pass those bills, without waiting for natural gas, the tax credits and the equalization tax. I do not know. It is a matter of strategy if there is still an effort to put together the whole package.

But I think if we were taking some action, it might have the positive impact we need.

Secretary BLUMENTHAL. We continue to feel that the package has to be put together and my own view would be, based on my contact with people all across the world, that they really look at these two remaining pieces as being the critical ones that they are waiting for.

Senator DOLE. Thank you.

Senator NELSON. May I say that I did not announce in the beginning a 10-minute rule and in fact violated it myself, but I would hope that we could finish with Secretary Blumenthal by 11. A roll-call will occur then. I will conduct the hearings right straight through the noon hour, but if it is possible for Senator Curtis and Senator Roth to divide the time between now and 11, if you do not object, in light of the rollcall—

Senator CURTIS. I just have one question.

Senator NELSON. All right. I am just calling attention to the fact that we do have a rollcall and we have two more witnesses and we will be running through the noon hour, in any event.

Senator CURTIS. I believe, Mr. Secretary, that the Secretary of the Treasury is one of the trustees of the social security fund. It is also my understanding that the annual trustee's report was due on April 1 and it has not yet been submitted.

Is there any reason for that being held back?

Secretary BLUMENTHAL. I think that we want to be sure to submit a good report. I must plead guilty on behalf of all of the trustees to a certain degree of delinquency here and beg your indulgence. It will be forthcoming very shortly. We just simply have not completed all of the work, and we want to be sure that we submit a really good report. It will be forthcoming very shortly, and I am sorry that we are late.

Senator CURTIS. That is all I have.

Senator NELSON. Senator Roth?

Senator ROTH. Mr. Secretary, last fall, when the COET came up for consideration, I made a proposal in the Finance Committee and on the Senate floor that if we were going to adopt the COET in conference, the funds from the tax should be used to help bail out the social security trust fund.

At that time—I do not know whether it was because it was a Republican proposal or not—it was opposed by the administration. And on the Senate floor, I think I only got something like 18 votes.

I am pleased to see that Mr. Ullman has discussed this idea in the last several days. But I am not clear as to what the position of the administration is. If I understand you correctly—and I am not sure that I do—while you are not urging it, you seem to be saying that it is a compromise that you would accept? Is that correct—that you would agree to having COET funds being used to bail out social security?

Secretary BLUMENTHAL. I really cannot say, Senator. Let me repeat our view on this. We do not believe that social security taxes ought to be opened up this year, for all of the reasons that I have explained here this morning. We think that COET ought to be passed on its own merits, and it is not our preferred solution to do that and to link it to social security.

If, however, the Congress did that, we would certainly want to look at it and the President would want to consider it and we really cannot go beyond that. There are so many uncertainties.

I have heard here this morning reference to the fact that COET has been rejected. I hope that that is not true, or that that can be reconsidered. There have been so many proposals to use the revenue from the COET in a variety of ways that it is difficult for us even to gage how much money would be available.

So, it is a bird that is out there in the bush someplace. Meanwhile, we have—

Senator ROTH. On that point, Mr. Secretary, first of all, let me say that I oppose the COET. I made the motion to strike it in committee. But it was my position that if an effort was going to be made to acquiesce to the House position on it that it would be better utilized

for this kind of proposal than for a lot of new spending programs, as had been proposed.

I am very concerned about the whole state of the economy and about the only thing this administration is doing, as far as I can see, is to continue to impose new taxes.

Now you tell us that you still want the crude oil taxes, which would impose billions of dollars in new taxes on the economy in 1979.

Are you saying that we should still be taking more money out of the economy through higher taxes? What are we going to do to build confidence both on the part of the American people and business in the economy and in this Government?

I spent a week back home and confidence is very low. In answer to Mr. Danforth's question earlier, you say, well, we can have future tax cuts. I think the biggest problem facing this administration in trying to instill confidence into what it is doing is to bring some certainty into the picture.

You are saying now that you want to look at social security taxes in the future, that maybe you are going to have future tax cuts. When are you going to have an overall strategy?

There has been a lot of criticism in the international area that you have no overall strategy and the same thing is happening here in the domestic area. There is a lack of confidence, it is partly because under your tax program people over \$17,000 are going to be paying higher taxes. Those are not wealthy people.

A person who makes \$20,000 today is the equivalent of \$11,000 or \$12,000 10 years ago. In 10 years, you are going to have to have an income of \$35,000. It is no wonder that middle America is upset and disturbed, and you keep calling them rich. Anybody who makes \$25,000 is rich today, according to your figures. I deny that.

I want to go back again. Are you saying that we ought to take another \$3 billion out of this economy?

Secretary BLUMENTHAL. No, sir, we have always recommended that the COET tax, which we think needs to be passed in order to restore or fortify international confidence because of its relationship to the dollar, that those resources be returned to the economy, not that they be taken out as a tax and be kept out of the economy.

So, we are certainly not suggesting that the COET tax which is needed as part of the energy program be a tax that would be levied on the people and not returned in some way.

Senator ROY. Do you think taking, for example, something like \$25.8 billion out this year in taxes, according to the Joint Committee on Taxation, and putting part of it back in, as you say, is going to build certainty into the economic picture?

Secretary BLUMENTHAL. I think that unless we have an energy program that promises to reduce consumption, reduce imports and boost production in this country, we will not have certainty, Senator. We will not have confidence, and we will not have certainty.

I think that is one of the critical questions before this country.

Senator ROY. Well, Mr. Secretary and Mr. Chairman, I do not want to belabor the point longer, but I just want to observe that I think that is of critical importance, that a comprehensive tax cut program be developed—and that includes social security—and anything short

of that is not going to provide the confidence that we need to get this economy moving upwards.

I would just urge this administration once more to try to do something that will build confidence and help not only those on the lower end of the economic scale, but middle America.

I think your tax program is a ripoff. It is taking dollars away from those who are the most energetic, the hardest working, and I just fear that if we continue along this present course it is going to get worse rather than better.

Thank you, Mr. Chairman.

Senator NELSON. Senator Danforth.

Senator DANFORTH. Mr. Secretary, as indicated earlier, my concern is that what we will do is to have a quick cure which will turn out to be a final cure, and it seems to me that if that is going to happen—which I think there is a considerable likelihood that we are going to do something, that Congress will want to do something on social security quickly—I do think that it is good to be looking down the road so that we can see how what we do, if anything, now, will fit into a bigger picture of what will be coming.

And I wonder if you could quickly spell out generally what the administration's reaction would be to the following more long term approaches:

First, a movement toward universal coverage, bringing in Federal employees on some phased basis with no net reduction of their total, of their aggregate, benefits.

Second, a different decoupling formula than the one that we enacted last year, whether it would be possible to find a cheaper decoupling. It seems to me that we solved the double indexing problem in the most expensive possible way and whether we could not take another look at that.

Third, there has been a proposal among some House Members to, 20 years or so down the road, 1 month a year, increase the age at which social security benefits are paid.

Secretary BLUMENTHAL. Senator, I am not in a position, unfortunately, today to indicate what the administration's position will be on these matters the next time they are considered and what the proposals are that we would be making. These are the sorts of things that I think do require careful study.

I think the issues you raise, plus some others, are the right issues—the question of coverage and the projections with regard to age plus some of the others that I have mentioned, but I am simply not in a position to give you a position at this time.

Senator DANFORTH. Then I will just conclude by making this observation. I think that there is a real danger in prolonged studies, not just the fact that it is a duplication of all the myriad studies that have gone before, but I think the danger is that if we go for a quick fix, the quick fix will become permanent and the more likely it is becoming permanent is a function of the length of time that the study takes.

I think each of these three areas that I have mentioned are areas that have been debated, considered, analyzed, and the administration, for example, on the decoupling problem had a proposal. It analyzed it before it came to Congress last year. Hearings were held on it. Con-

gress looked into it—in fact, this committee has a whole study of this problem that we commissioned and we paid for. And I think it is true that, for the long-term social security financing problem, the whole question of decoupling, wage indexing, price indexing, is the No. 1 area as far as meeting or addressing long-term social security financing goes.

So, I would hope that, instead of just chewing it over and over and over in the three or four pages of studies that you have outlined in your statement, that somehow we could really get on the stick now, so that at the time we are considering the possibility of the quick fix, we can be looking ahead immediately toward the long-term situation and so that there is some date certain or time certain to complete all of these numerous studies.

Do you have any idea how long it would take to do a reasonable job of completing the studies?

Secretary BLUMENTHAL. I really do not. There are, for most of those that have been mentioned in my testimony, there are deadlines that are set as to when reports have to be in. I cited them, not because we do not have any knowledge and do not know a great deal about these matters, but only because they are in process, based on decisions made by the Congress and by the President and because, in fact, if Congress accepts our recommendation and does not change the taxes this year, we would have time to have the results of those analyses, in any case, next year.

But I would hope that next year we could come up with some proposals.

Senator DANFORTH. Next year.

All right. Let me ask you just one other big, general question. We are talking, and we have been, about financing and it is a question of sort of what pocket the money comes out of. Do you pay the bill by social security taxes, do you pay the bill by general revenue, do you pay the bill by a crude oil equalization tax, how do you find the money necessary to fund the system, the benefit structure which is now in place.

A couple of these proposals, namely the decoupling proposal, and namely the putting off the age that the benefits vest, a couple of these proposals really go not to the financing, not to the inflow of revenue, but go to the benefit system itself.

Do you believe that the benefit structure needs to be looked at?

Secretary BLUMENTHAL. Personally, I think that—and this is a personal viewpoint—my personal viewpoint is that the question of benefits and costs must be considered together, that the areas that you have touched on plus the others that I have touched on in my testimony and in my informal remarks are all legitimate areas of inquiry, including the benefit issues that you have raised.

Congress decided on a decoupling last year which did a great deal to correct the overindexation that was in the system. I think that all needs to be looked at. Where you come out with a benefit package, I do not know.

Senator DANFORTH. We did it in the most popular, politically popular, way. We solved an obvious technical problem that everybody admitted, but we did it in the most politically popular way.

Would the administration, in the current parlance, be willing to bite the bullet and would the administration be willing to say, look, when you talk about social security benefits you are talking about something that is very volatile politically, but we are willing to come to grips with it.

Secretary BLUMENTHAL. I cannot tell you this morning, Senator, whether or not the administration would favor a further change in the decoupling formula. It is just a matter on which I am not familiar.

Senator LONG. Mr. Secretary, the Treasury Department had prepared tables showing the combined social security and income tax burdens for various income levels under both present law and under the President's tax proposals. These have been reprinted as tables 15 through 18 on pages 16 and 17 of this staff blue book on financing of social security programs.

Would you please supply for the record similar tables of the proposals of Senators Nelson, Hathaway, Haskell, Dole, Danforth, and the other proposals described on pages 18 through 27 of the staff blue book?

Furthermore, I believe it would be helpful if you could give us some tables to reflect the result of inflation so that we could see, with regards to a person whose income increases by virtue of inflation, where he stands, all things considered. Has his tax been increased or lowered, in terms of constant dollars?

Secretary BLUMENTHAL. We will do so.

Senator DANFORTH. Mr. Chairman, could I just ask also if that could include 1980 as well as 1979?

Senator LONG. If you could do it, we would like to have that.

Secretary BLUMENTHAL. Yes, sir.

[The following was subsequently supplied for the record:]



## TREASURY DEPARTMENT ANALYSIS OF IMPACT OF VARIOUS SOCIAL SECURITY FINANCING PROPOSALS BY INCOME CLASS

TABLE 1A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND ADMINISTRATION TAX PROPOSALS AS OF 1979: 4-PERSON, 1-EARNER FAMILIES

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: Administration proposals			Change in total taxes	
	Income tax <sup>1</sup>	Social security tax <sup>2</sup>	Total	Income tax <sup>1,3</sup>	Social security tax <sup>4</sup>	Total	Income tax <sup>3</sup>	Social security tax <sup>4</sup>	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$306	\$6	\$14	0
\$10,000.....	446	585	1,031	446	613	1,059	134	613	747	-284	-\$312
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,072	920	1,992	-217	-258
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	1,910	1,226	3,136	-9	-270
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	2,830	1,404	4,234	119	-320
\$30,000.....	4,232	956	5,197	4,232	1,404	5,636	3,910	1,404	5,314	117	-322
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,630	1,404	8,034	221	-218
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,870	1,404	11,274	359	-80
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	29,470	1,404	30,874	1,029	590

<sup>1</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>2</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>3</sup> Assumes extension of expiring 1977 provisions.

<sup>4</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

<sup>5</sup> Assumes deductible expenses equal to 20 percent of income.

TABLE 1B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND ADMINISTRATION TAX PROPOSALS AS OF 1979: 4-PERSON, 2-EARNER FAMILIES\*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: Administration proposals			Change in total taxes	
	Income tax <sup>1</sup>	Social security tax <sup>2</sup>	Total	Income tax <sup>1</sup>	Social security tax <sup>2</sup>	Total	Income tax	Social security tax <sup>4</sup>	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$306	\$6	\$14	0
\$10,000.....	446	585	1,031	446	613	1,059	134	613	747	-284	-\$312
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,072	920	1,992	-215	-258
\$20,000.....	2,180	1,170	3,350	2,180	1,226	3,406	1,910	1,226	3,136	-214	-270
\$25,000.....	3,150	1,463	4,613	3,150	1,532	4,682	2,830	1,532	4,362	-251	-320
\$30,000.....	4,232	1,755	5,987	4,232	1,839	6,071	3,910	1,839	5,749	-238	-322
\$40,000.....	6,848	1,931	8,779	6,848	2,452	9,300	6,630	2,452	9,082	303	-218
\$50,000.....	9,950	1,931	11,881	9,950	2,808	12,758	9,870	2,808	12,678	797	-80
\$100,000.....	28,880	1,931	30,811	28,880	2,808	31,688	29,470	2,808	32,278	1,467	-410

<sup>1</sup> Assumes deductible expenses equal to 23 percent of income.  
<sup>2</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>3</sup> Assumes extension of expiring 1977 provisions.  
<sup>4</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.  
\*Each spouse assumed to earn 50 percent of income.

TABLE 1C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: 1977 TAX UNDER PRESENT LAW  
VERSUS 1979 TAX UNDER ADMINISTRATION PROPOSAL (1979 DOLLARS), 4-PERSON, 1-EARNER FAMILIES

[1979 dollars]

1979 levels of wage income	1977 taxes <sup>1</sup>			1979 taxes			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>4</sup>	FICA tax <sup>5</sup>	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-400	292	-108	-300	306	6	100	14	114
\$10,000.....	291	585	876	134	613	747	-157	28	-129
\$15,000.....	1,204	877	2,082	1,072	920	1,992	-132	42	-90
\$20,000.....	2,013	1,087	3,100	1,910	1,226	3,136	-103	139	36
\$25,000.....	2,931	1,087	4,018	2,830	1,404	4,234	-101	317	216
\$30,000.....	3,945	1,087	5,032	3,910	1,404	5,314	-35	317	282
\$40,000.....	6,313	1,087	7,400	6,630	1,404	8,034	317	317	634
\$50,000.....	9,193	1,087	10,280	9,870	1,404	11,274	677	317	994
\$100,000.....	27,667	1,087	28,754	29,470	1,404	30,874	1,803	317	2,120

<sup>1</sup> Assumes a 12.6-percent increase in income due to inflation from 1977 to 1979.

<sup>2</sup> Assumes itemized deductions equal to 23 percent of gross income under present law.

<sup>3</sup> Calculated under 1977 wage base (\$16,500) and tax rate (5.85 percent). Employee share only.

<sup>4</sup> Assumes itemized deductions equal to 20 percent of gross income under the proposal.

<sup>5</sup> Calculated under 1979 wage base (\$22,900) and tax rate (6.13 percent). Employee share only.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

TABLE 1D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER ADMINISTRATION PROPOSAL (1979 DOLLARS), 4-PERSON, 2-EARNER\* FAMILIES

[1979 dollars]

1979 levels of wage income	1977 taxes <sup>1</sup>			1979 taxes			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>4</sup>	FICA tax <sup>5</sup>	Total tax	Income tax	FICA tax	Total tax
\$5,000 .....	-400	292	-108	-300	306	6	100	14	114
\$10,000 .....	291	585	876	134	613	747	-157	28	-129
\$15,000 .....	1,204	877	2,082	1,072	920	1,992	-132	42	-90
\$20,000 .....	2,013	1,170	3,183	1,910	1,226	3,136	-103	56	-47
\$25,000 .....	2,931	1,463	4,394	2,830	1,533	4,363	-101	70	-31
\$30,000 .....	3,945	1,755	5,700	3,910	1,839	5,749	-35	84	49
\$40,000 .....	6,313	2,174	8,487	6,630	2,452	9,082	317	278	595
\$50,000 .....	9,193	2,174	11,367	9,870	2,808	12,678	677	634	1,311
\$100,000 .....	27,667	2,174	29,841	29,470	2,808	32,278	1,803	634	2,437

<sup>1</sup> Assumes a 12.6-percent increase in income due to inflation from 1977 to 1979.

<sup>2</sup> Assumes itemized deductions equal to 23 percent of gross income under present law.

<sup>3</sup> Calculated under 1977 wage base (\$16,500) and tax rate (5.85 percent). Employee share only.

<sup>4</sup> Assumes itemized deductions equal to 20 percent of gross income under the proposal.

<sup>5</sup> Calculated under 1979 wage base (\$22,900) and tax rate (6.13 percent). Employee share only.

\*Assumes each spouse earns 50 percent of total family income.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

TABLE 1E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER THE ADMINISTRATION PROPOSAL (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under administration proposal			Change in tax		
	Income tax <sup>1</sup>	FICA tax <sup>2</sup>	Total tax	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$306	\$50	\$143	\$14	\$157
\$10,000.....	291	585	876	224	613	837	-67	28	-39
\$15,000.....	1,205	877	2,083	1,174	919	2,094	-31	42	11
\$20,000.....	2,014	1,087	3,101	2,006	1,226	3,232	-8	139	131
\$25,000.....	2,932	1,087	4,019	2,969	1,502	4,471	37	415	452
\$30,000.....	3,945	1,087	5,032	4,114	1,502	5,616	169	415	584
\$40,000.....	6,313	1,087	7,400	6,947	1,502	8,449	634	415	1,049
\$50,000.....	9,193	1,087	10,280	10,289	1,502	11,791	1,096	415	1,511
\$100,000.....	27,666	1,087	28,753	30,040	1,502	31,542	2,374	415	2,789

<sup>1</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>2</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500) employees' share only.

<sup>3</sup> Assumes deductible expenses equal to 20 percent of income.

<sup>4</sup> Calculated under present law rate and base for 1980 (6.13 percent and \$25,900), employees' share only.

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 1F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER THE ADMINISTRATION PROPOSAL (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES <sup>1</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under administration proposal			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>4</sup>	FICA tax <sup>4</sup>	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$306	\$50	\$143	\$14	\$157
\$10,000.....	291	585	876	224	613	837	-67	28	-39
\$15,000.....	1,205	877	2,083	1,174	919	2,094	-31	42	11
\$20,000.....	2,014	1,170	3,184	2,006	1,226	3,232	-8	56	48
\$25,000.....	2,932	1,463	4,394	2,969	1,533	4,502	37	70	107
\$30,000.....	3,945	1,755	5,700	4,114	1,839	5,953	169	84	253
\$40,000.....	6,313	2,174	8,487	6,947	2,452	9,399	634	278	912
\$50,000.....	9,193	2,174	11,367	10,289	3,003	13,292	1,096	829	1,925
\$100,000.....	27,666	2,174	29,840	30,040	3,003	33,044	2,374	829	3,203

<sup>1</sup> Assumes each spouse earns 50 percent of total family income.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees share only.

<sup>4</sup> Assumes deductible expenses equal to 20 percent of income.

<sup>5</sup> Calculated under present law rates and credit for 1980 (6.13 percent and \$25,900), employees' share only.

\*Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 2A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2459 (SENATOR EAGLETON)<sup>1</sup> AS OF 1979: 4-PERSON, 1-EARNER FAMILIES

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2459 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2,4</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$306	\$6	\$14	0
\$10,000.....	446	585	1,031	446	613	1,059	354	613	967	-64	-\$92
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,192	920	2,112	-95	-138
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	1,996	1,226	3,222	77	-184
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	2,939	1,404	4,343	228	-211
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	4,021	1,404	5,425	228	-211
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,637	1,404	8,041	228	-211
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,739	1,404	11,143	228	-211
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	28,669	1,404	30,073	228	-211

<sup>1</sup> Social security tax calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by nonrefundable credit equal to 15 percent of FICA liability, employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

TABLE 2B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2459 (SENATOR EAGLETON)<sup>1</sup> AS OF 1979: 4-PERSON, 2-EARNER FAMILIES\*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2459 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2,4</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$306	\$6	\$14	0
\$10,000.....	446	585	1,031	446	613	1,059	354	613	967	-64	-\$92
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,192	920	2,112	-95	-138
\$20,000.....	2,180	1,170	3,350	2,180	1,226	3,406	1,996	1,226	3,222	-128	-184
\$25,000.....	3,150	1,463	4,613	3,150	1,532	4,682	2,920	1,532	4,452	-161	-230
\$30,000.....	4,232	1,755	5,987	4,232	1,839	6,071	3,956	1,839	5,795	-192	-276
\$40,000.....	6,848	1,931	8,779	6,848	2,452	9,300	6,480	2,452	8,932	153	-368
\$50,000.....	9,950	1,931	11,881	9,950	2,808	12,758	9,529	2,808	12,337	456	-421
\$100,000.....	28,880	1,931	30,811	28,880	2,808	31,688	28,459	2,808	31,267	456	-421

<sup>1</sup> Social security tax calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by non-refundable credit equal to 15 percent of social security tax liability, employee share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

\*Each spouse assumed to earn 50 percent of income.



TABLE 2C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES:\* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2459 (SENATOR EAGLETON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2459 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$306	\$6	\$100	\$14	\$114
\$10,000.....	291	585	876	354	613	967	63	28	91
\$15,000.....	1,205	877	2,083	1,192	919	2,111	-13	42	29
\$20,000.....	2,014	1,087	3,101	1,996	1,226	3,222	-18	139	121
\$25,000.....	2,932	1,087	4,019	2,939	1,404	4,343	8	317	324
\$30,000.....	3,945	1,087	5,032	4,021	1,404	5,425	76	317	393
\$40,000.....	6,313	1,087	7,400	6,637	1,404	8,041	324	317	641
\$50,000.....	9,193	1,087	10,280	9,739	1,404	11,143	547	317	863
\$100,000.....	27,666	1,087	28,753	28,669	1,404	30,073	1,003	317	1,320

<sup>1</sup> FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by nonrefundable credit equal to 15 percent of FICA liability, employees' share only.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\* Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 2D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2459 (SENATOR EAGLETON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2459 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$306	\$6	\$100	\$14	\$114
\$10,000.....	291	585	876	354	613	967	63	28	91
\$15,000.....	1,205	877	2,083	1,192	919	2,111	-13	42	29
\$20,000.....	2,014	1,170	3,184	1,996	1,226	3,222	-18	56	38
\$25,000.....	2,932	1,463	4,394	2,920	1,533	4,453	-12	70	58
\$30,000.....	3,945	1,755	5,700	3,956	1,839	5,795	11	84	95
\$40,000.....	6,313	2,174	8,487	6,480	2,452	8,932	167	278	445
\$50,000.....	9,193	2,174	11,367	9,529	2,808	12,337	336	633	970
\$100,000.....	27,666	2,174	29,840	28,459	2,808	31,267	793	633	1,426

<sup>1</sup> FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by nonrefundable credit equal to 15 percent of FICA liability, employee share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 2E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2459 (SENATOR EAGLETON) <sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2459 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$306	\$50	\$143	\$14	\$157
\$10,000.....	291	585	876	429	613	1,042	138	28	166
\$15,000.....	1,205	877	2,083	1,249	919	2,169	44	42	86
\$20,000.....	2,014	1,087	3,101	2,087	1,226	3,313	72	139	211
\$25,000.....	2,932	1,087	4,019	3,046	1,502	4,548	114	415	529
\$30,000.....	3,945	1,087	5,032	4,178	1,502	5,679	232	415	647
\$40,000.....	6,313	1,087	7,400	6,897	1,502	8,398	584	415	998
\$50,000.....	9,193	1,087	10,280	10,110	1,502	11,612	917	415	1,332
\$100,000.....	27,666	1,087	28,753	29,176	1,502	30,677	1,509	415	1,924

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900), employees' share only. Income tax reduced by nonrefundable credit equal to 15 percent of FICA liability, employees' share only.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\*Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 2F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2459 (SENATOR EAGLETON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2459 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$306	\$50	\$143	\$14	\$157
\$10,000.....	291	585	876	429	613	1,042	138	28	166
\$15,000.....	1,205	877	2,083	1,249	919	2,169	44	42	86
\$20,000.....	2,014	1,170	3,184	2,087	1,226	3,313	72	56	128
\$25,000.....	2,932	1,463	4,394	3,041	1,533	4,574	110	70	180
\$30,000.....	3,945	1,755	5,700	4,127	1,839	5,966	182	84	266
\$40,000.....	6,313	2,174	8,487	6,754	2,452	9,206	441	278	719
\$50,000.....	9,193	2,174	11,367	9,885	3,003	12,888	692	829	1,521
\$100,000.....	27,666	2,174	29,840	28,950	3,003	31,954	1,284	877	2,113

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900), employees' share only. Income tax reduced by nonrefundable credit equal to 15 percent of FICA liability, employee share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

88

**TABLE 3A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2501 (SENATOR HATHAWAY) AS OF 1979: 4-PERSON, 1-EARNER FAMILIES**

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2501 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2,4</sup>	Social security tax <sup>4</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$195	-\$105	-\$97	-\$111
\$10,000.....	446	585	1,031	446	613	1,059	446	390	836	-195	-223
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,330	585	1,915	-292	-335
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	2,180	780	2,960	-185	-446
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	3,150	975	4,125	10	-429
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	4,232	1,170	5,402	205	-234
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,848	1,560	8,408	595	156
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,950	1,950	11,900	985	546
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	28,880	3,900	32,780	2,935	2,496

<sup>1</sup> Social security tax calculated under 3.9 percent rate and \$100,000 base, employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

**TABLE 3B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2501 (SENATOR HATHAWAY) AS OF 1979: 4-PERSON, 2-EARNER FAMILIES\***

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2501 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2,4</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$195	-\$105	-\$97	-\$111
\$10,000.....	446	585	1,031	446	613	1,059	446	390	836	-195	-223
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,330	585	1,915	-292	-335
\$20,000.....	2,180	1,170	3,350	2,180	1,226	3,406	2,180	780	2,960	-390	-446
\$25,000.....	3,150	1,463	4,613	3,150	1,532	4,682	3,150	975	4,125	-488	-557
\$30,000.....	4,232	1,755	5,987	4,232	1,839	6,071	4,232	1,170	5,402	-585	-669
\$40,000.....	6,848	1,931	8,779	6,848	2,452	9,300	6,848	1,560	8,408	-371	-892
\$50,000.....	9,950	1,931	11,881	9,950	2,808	12,758	9,950	1,950	11,900	19	-858
\$100,000.....	28,880	1,931	30,811	28,880	2,808	31,688	28,880	3,900	32,780	1,969	1,092

<sup>1</sup> Social security tax calculated under 3.9 percent rate and \$100,000 base, employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

\*Each spouse assumed to earn 50 percent of income.

TABLE 3C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2501 (SENATOR HATHAWAY)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2501 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$195	-\$105	\$100	-\$97	\$3
\$10,000.....	291	585	876	446	390	836	155	-195	-40
\$15,000.....	1,205	877	2,083	1,330	585	1,915	125	-292	-168
\$20,000.....	2,014	1,087	3,101	2,180	780	2,960	166	-307	-141
\$25,000.....	2,932	1,087	4,019	3,150	975	4,125	218	-112	106
\$30,000.....	3,945	1,087	5,032	4,232	1,170	5,402	287	83	370
\$40,000.....	6,313	1,087	7,400	6,848	1,560	8,408	535	473	1,008
\$50,000.....	9,193	1,087	10,280	9,950	1,950	11,900	757	863	1,620
\$100,000.....	27,666	1,087	28,753	28,880	3,900	32,780	1,214	2,813	4,027

<sup>1</sup> FICA calculated under 3.9 percent rate and \$100,000 base, employees' share only.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\*Assumes a 12.6-percent increase in income from 1977 to 1979.

**TABLE 3D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES:\* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2501 (SENATOR HATHAWAY)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>**

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2501 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$195	-\$105	\$100	-\$97	\$3
\$10,000.....	291	585	876	446	390	836	155	-195	-40
\$15,000.....	1,205	877	2,083	1,330	585	1,915	125	-292	-168
\$20,000.....	2,014	1,170	3,184	2,180	780	2,960	166	-390	-224
\$25,000.....	2,932	1,463	4,394	3,150	975	4,125	218	-488	-269
\$30,000.....	3,945	1,755	5,700	4,232	1,170	5,402	287	-585	-298
\$40,000.....	6,313	2,174	8,487	6,848	1,560	8,408	535	-614	-79
\$50,000.....	9,193	2,174	11,367	9,950	1,950	11,900	757	-224	533
\$100,000.....	27,666	2,174	29,840	28,880	3,900	32,780	1,214	1,726	2,940

<sup>1</sup> FICA calculated under 3.9 percent rate and \$100,000 base, employees' share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes a 12.6-percent increase in income from 1977 to 1979.



TABLE 3E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2501 (SENATOR HATHAWAY) † (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2501 †			Change in tax		
	Income tax ‡	FICA tax ‡	Total tax	Income tax ‡	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$195	-\$62	\$143	-\$97	\$46
\$10,000.....	291	585	876	521	390	911	230	-195	35
\$15,000.....	1,205	877	2,083	1,387	585	1,972	182	-292	-110
\$20,000.....	2,014	1,087	3,101	2,270	780	3,050	256	-307	-50
\$25,000.....	2,932	1,087	4,019	3,271	975	4,246	339	-112	227
\$30,000.....	3,945	1,087	5,032	4,403	1,170	5,573	458	83	541
\$40,000.....	6,313	1,087	7,400	7,122	1,560	8,682	809	473	1,282
\$50,000.....	9,193	1,087	10,280	10,335	1,950	12,285	1,142	863	2,005
\$100,000.....	27,666	1,087	28,753	29,401	3,900	33,301	1,734	2,813	4,547

† FICA calculated under 3.9 percent rate and \$108,000 base, employees' share only.

‡ Assumes deductible equal to 23 percent of income.

§ Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 3F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2501 (SENATOR HATHAWAY)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2501 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$195	-\$62	\$143	-\$97	\$46
\$10,000.....	291	585	876	521	390	911	230	-195	35
\$15,000.....	1,205	877	2,083	1,387	585	1,972	182	-292	-110
\$20,000.....	2,014	1,170	3,184	2,270	780	3,050	256	-390	-134
\$25,000.....	2,932	1,463	4,394	3,271	975	4,246	339	-488	-148
\$30,000.....	3,945	1,755	5,700	4,403	1,170	5,573	458	-585	-127
\$40,000.....	6,313	2,174	8,487	7,122	1,560	8,682	809	-614	195
\$50,000.....	9,193	2,174	11,367	10,335	1,950	12,285	1,142	-224	918
\$100,000.....	27,666	2,174	29,840	29,401	3,900	33,301	1,734	1,726	3,460

<sup>1</sup> FICA calculated under 3.9 percent rate and \$108,000 base, employees' share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

**TABLE 4A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2503 (SENATOR NELSON) AS OF 1979: 4-PERSON, 1-EARNER FAMILIES**

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2503 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$217	-\$83	-\$76	-\$89
\$10,000.....	446	585	1,031	446	613	1,059	446	433	879	-152	-180
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,330	650	1,980	-228	-270
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	2,180	866	3,046	-99	-360
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	3,150	992	4,142	26	-412
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	4,232	992	5,224	26	-412
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,848	992	7,840	26	-412
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,950	992	10,942	26	-412
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	28,880	992	29,872	26	-412

<sup>1</sup> Social Security tax calculated under 4.33 percent rate and \$22,900 base; employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

TABLE 4B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2503 (SENATOR NELSON)<sup>1</sup> AS OF 1979: 4 PERSON, 2-EARNER FAMILIES\*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2503 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$217	-\$83	-\$76	-\$89
\$10,000.....	446	585	1,031	446	613	1,059	446	433	879	-152	-180
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,330	650	1,980	-228	-270
\$20,000.....	2,180	1,170	3,350	2,180	1,226	3,406	2,180	866	3,046	-304	-360
\$25,000.....	3,150	1,463	4,613	3,150	1,532	4,682	3,150	1,083	4,233	-380	-449
\$30,000.....	4,232	1,755	5,987	4,232	1,839	6,071	4,232	1,299	5,531	-456	-540
\$40,000.....	6,848	1,931	8,779	6,848	2,452	9,300	6,848	1,732	8,580	-199	-720
\$50,000.....	9,950	1,931	11,881	9,950	2,808	12,758	9,950	1,983	11,933	53	-825
\$100,000.....	28,880	1,931	30,811	28,880	2,808	31,688	28,880	1,983	30,863	53	-825

<sup>1</sup> Social Security tax calculated under 4.33 percent rate and \$22,900 base; employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

\*Each spouse assumed to earn 50 percent of income.

TABLE 4C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2503 (SENATOR NELSON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2503 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$217	-\$83	\$100	-\$76	\$24
\$10,000.....	291	585	876	446	433	879	155	-152	3
\$15,000.....	1,205	877	2,083	1,330	650	1,980	125	-228	-103
\$20,000.....	2,014	1,087	3,101	2,180	866	3,046	166	-221	-55
\$25,000.....	2,932	1,087	4,019	3,150	992	4,142	218	-95	123
\$30,000.....	3,945	1,087	5,032	4,232	992	5,224	287	-95	191
\$40,000.....	6,313	1,087	7,400	6,848	992	7,840	535	-95	439
\$50,000.....	9,193	1,087	10,280	9,950	992	10,942	757	-95	662
\$100,000.....	27,666	1,087	28,753	28,880	992	29,872	1,214	-95	1,118

<sup>1</sup> FICA calculated under 4.33 percent rate and \$22,900 base; employees' share only.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\* Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 4D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2053 (SENATOR NELSON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2053 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$217	-\$83	\$100	-\$76	\$24
\$10,000.....	291	585	876	446	433	879	155	-152	3
\$15,000.....	1,205	877	2,083	1,330	650	1,980	125	-228	-103
\$20,000.....	2,014	1,170	3,184	2,180	866	3,046	166	-304	-138
\$25,000.....	2,932	1,463	4,394	3,150	1,083	4,233	218	-380	-162
\$30,000.....	3,945	1,755	5,700	4,232	1,299	5,531	287	-456	-169
\$40,000.....	6,313	2,174	8,487	6,848	1,732	8,580	535	-442	93
\$50,000.....	9,193	2,174	11,367	9,950	1,983	11,933	757	-191	566
\$100,000.....	27,666	2,174	29,840	28,880	1,983	30,863	1,214	-191	1,023

<sup>1</sup> FICA calculated under 4.33 percent rates and \$22,900 base, employees' share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 4E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2503 (SENATOR NELSON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2503 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$217	-\$40	\$143	-\$76	\$67
\$10,000.....	291	585	876	521	433	954	230	-152	78
\$15,000.....	1,205	877	2,083	1,387	650	2,036	182	-228	-46
\$20,000.....	2,014	1,087	3,101	2,270	866	3,136	256	-221	35
\$25,000.....	2,932	1,087	4,019	3,271	1,061	4,332	339	-26	313
\$30,000.....	3,945	1,087	5,032	4,403	1,061	5,463	458	-26	431
\$40,000.....	6,313	1,087	7,400	7,122	1,061	8,183	809	-26	783
\$50,000.....	9,193	1,087	10,280	10,335	1,061	11,396	1,142	-26	1,116
\$100,000.....	27,666	1,087	28,753	29,401	1,061	30,462	1,734	-26	1,708

<sup>1</sup> FICA calculated under 4.33 percent rate and \$25,900 base; employees' share only.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\*Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 4F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2503 (SENATOR NELSON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2503 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$217	-\$40	\$143	-\$76	\$67
\$10,000.....	291	585	876	521	433	954	230	-152	78
\$15,000.....	1,205	877	2,083	1,387	650	2,036	182	-228	-46
\$20,000.....	2,014	1,170	3,184	2,270	866	3,136	256	-304	-48
\$25,000.....	2,932	1,463	4,394	3,271	1,083	4,354	339	-380	-41
\$30,000.....	3,945	1,755	5,700	4,403	1,299	5,702	458	-456	2
\$40,000.....	6,313	2,174	8,487	7,122	1,732	8,854	809	-442	367
\$50,000.....	9,193	2,174	11,367	10,335	2,122	12,457	1,142	-53	1,090
\$100,000.....	27,666	2,174	29,840	29,401	2,122	31,522	1,734	-53	1,682

<sup>1</sup> FICA calculated under 4.33 percent rates and \$25,900 base, employees' share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.



TABLE 5A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND ALTERNATIVE (SENATOR NELSON)<sup>1</sup> AS OF 1979: 4 PERSON, 1-EARNER FAMILIES

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: Alternative <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>4</sup>	Social security tax <sup>5</sup>	Total	Income tax <sup>6</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$303	\$3	\$10	-\$3
\$10,000.....	446	585	1,031	446	613	1,059	446	605	1,051	20	-8
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,330	908	2,238	30	-12
\$20,000.....	2,180	965	3,145	2,180	1,126	3,406	2,180	1,143	3,323	178	-83
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	3,150	1,143	4,293	178	-261
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	4,232	1,143	5,375	178	-261
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,848	1,143	7,991	178	-261
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,950	1,143	11,093	178	-261
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	28,880	1,143	30,023	178	-261

<sup>1</sup> Social security tax calculated under prior law rate and base for 1979 (6.05 percent and \$18,900), employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

TABLE 5B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND ALTERNATIVE (SENATOR NELSON) AS OF 1979: 4 PERSON, 2-EARNER FAMILIES \*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: Alternative <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>4</sup>	Social security tax <sup>5</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$303	\$3	\$10	-\$3
\$10,000.....	446	585	1,031	446	613	1,059	446	605	1,051	20	-8
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,330	908	2,238	30	-12
\$20,000.....	2,180	1,170	3,350	2,180	1,226	3,406	2,180	1,210	3,390	40	-16
\$25,000.....	3,150	1,463	4,613	3,150	1,532	4,682	3,150	1,513	4,663	50	-19
\$30,000.....	4,232	1,755	5,987	4,232	1,839	6,071	4,232	1,815	6,047	60	-24
\$40,000.....	6,848	1,931	8,779	6,848	2,452	9,300	6,848	2,287	9,135	356	-165
\$50,000.....	9,950	1,931	11,881	9,950	2,808	12,758	9,950	2,287	12,237	356	-521
\$100,000.....	28,880	1,931	30,811	28,880	2,808	31,688	28,880	2,287	31,167	356	-521

<sup>1</sup> Social security tax calculated under prior law rate and base for 1979 (6.05 percent and \$18,900), employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

\* Each spouse assumed to earn 50 percent of income.

TABLE 5C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER ALTERNATIVE (SENATOR NELSON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under alternative <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$303	\$3	\$100	\$10	\$110
\$10,000.....	291	585	876	446	605	1,051	155	20	175
\$15,000.....	1,205	877	2,083	1,330	908	2,238	125	30	155
\$20,000.....	2,014	1,087	3,101	2,180	1,143	3,323	166	56	222
\$25,000.....	2,932	1,087	4,019	3,150	1,143	4,293	218	56	275
\$30,000.....	3,945	1,087	5,032	4,232	1,143	5,375	287	56	343
\$40,000.....	6,313	1,087	7,400	6,848	1,143	7,991	535	56	591
\$50,000.....	9,193	1,087	10,280	9,950	1,143	11,093	757	56	814
\$100,000.....	27,666	1,087	28,753	28,880	1,143	30,023	1,214	56	1,270

<sup>1</sup> FICA tax calculated under prior law rate and base for 1979 (6.05 percent and \$18,900), employees' share only.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\*Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 5D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER ALTERNATIVE (SENATOR NELSON) <sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES <sup>2</sup>

1979 levels of wage income	1977 tax under present law			1979 tax under alternative <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$303	\$3	\$100	\$10	\$110
\$10,000.....	291	585	876	446	605	1,051	155	20	175
\$15,000.....	1,205	877	2,083	1,330	908	2,238	125	30	155
\$20,000.....	2,014	1,170	3,184	2,180	1,210	3,390	166	40	206
\$25,000.....	2,932	1,463	4,394	3,150	1,513	4,663	218	50	268
\$30,000.....	3,945	1,755	5,700	4,232	1,815	6,047	287	60	347
\$40,000.....	6,313	2,174	8,487	6,848	2,287	9,135	535	113	648
\$50,000.....	9,193	2,174	11,367	9,950	2,287	12,237	757	113	870
\$100,000.....	27,666	2,174	29,840	28,880	2,287	31,167	1,214	113	1,326

<sup>1</sup> FICA tax calculated under prior law rate and base for 1979 (6.05 percent and \$18,900), employees' share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes a 12.6-percent increase in income from 1977 to 1979..

TABLE 5E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER ALTERNATIVE (SENATOR NELSON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under alternative <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$303	\$46	\$143	\$10	\$153
\$10,000.....	291	585	876	521	605	1,126	230	20	250
\$15,000.....	1,205	877	2,083	1,387	908	2,295	182	30	212
\$20,000.....	2,014	1,087	3,101	2,270	1,167	3,438	256	80	337
\$25,000.....	2,932	1,087	4,019	3,271	1,167	4,439	339	80	420
\$30,000.....	3,945	1,087	5,032	4,403	1,167	5,570	458	80	538
\$40,000.....	6,313	1,087	7,400	7,122	1,167	8,289	809	80	889
\$50,000.....	9,193	1,087	10,280	10,335	1,167	11,502	1,142	80	1,223
\$100,000.....	27,666	1,087	28,753	29,401	1,167	30,568	1,734	80	1,815

<sup>1</sup> FICA tax calculated under prior law rate and base for 1980 (6.05 percent and \$20,400), employees' share only.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base

for 1977 (\$16,500).

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 5F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES:\* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER ALTERNATIVE (SENATOR NELSON)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under alternative <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$303	\$46	\$143	\$10	\$153
\$10,000.....	291	585	876	521	605	1,126	230	20	250
\$15,000.....	1,205	877	2,083	1,387	908	2,295	182	30	212
\$20,000.....	2,014	1,170	3,184	2,270	1,210	3,480	256	40	296
\$25,000.....	2,932	1,463	4,394	3,271	1,513	4,784	339	50	389
\$30,000.....	3,945	1,755	5,700	4,403	1,815	6,218	458	60	518
\$40,000.....	6,313	2,174	8,487	7,122	2,335	9,457	809	161	970
\$50,000.....	9,193	2,174	11,367	10,335	2,335	12,670	1,142	161	1,303
\$100,000.....	27,666	2,174	29,840	29,401	2,335	31,736	1,734	161	1,895

<sup>1</sup> FICA tax calculated under prior law rate and base for 1980 (6.05 percent and \$20,400), employees' share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 6A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2741 (SENATOR DOMENICI) AS OF 1979: 4 PERSON, 1-EARNER FAMILIES

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2741 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2,4</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$314	\$306	-\$8	0	-\$14
\$10,000.....	446	585	1,031	446	613	1,059	418	613	1,031	0	-28
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,288	920	2,207	0	-43
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	2,124	1,226	3,350	\$205	-56
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	3,086	1,404	4,490	375	-64
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	4,168	1,404	5,572	375	-64
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,784	1,404	8,188	375	-64
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,886	1,404	11,290	375	-64
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	28,816	1,404	30,220	375	-64

<sup>1</sup> Social security tax calculated under present law rate and base for 1979 (6.13 percent and \$22,900) employees' share only. Income tax reduced by refundable credit equal to the increase in FICA liability due to the change in the rate from the prior law rate for 1977 (5.85 percent).

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

TABLE 6B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2741 (SENATOR DOMENICI) AS OF 1979: 4-PERSON, 2-EARNER FAMILIES \*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2741 †			Change in total taxes	
	Income tax †	Social security tax ‡	Total	Income tax †‡	Social security tax ‡	Total	Income tax †	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000 .....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$314	\$306	-\$8	0	-\$14
\$10,000 .....	446	585	2,031	446	613	1,059	418	613	1,031	0	-28
\$15,000 .....	1,330	877	2,207	1,330	920	2,250	1,288	920	2,207	0	-43
\$20,000 .....	2,180	1,170	3,350	2,180	1,226	3,406	2,124	1,226	3,350	0	-56
\$25,000 .....	3,150	1,463	4,613	3,150	1,532	4,682	3,080	1,532	4,612	0	-70
\$30,000 .....	4,232	1,755	5,987	4,232	1,839	6,071	4,148	1,839	5,987	0	-84
\$40,000 .....	6,848	1,931	8,779	6,848	2,452	9,300	6,736	2,452	9,188	\$409	-112
\$50,000 .....	9,950	1,931	11,881	9,950	2,808	12,758	9,822	2,808	12,630	749	-128
\$100,000 .....	28,880	1,931	30,811	28,880	2,808	31,688	28,752	2,808	31,560	749	-128

† Social security tax calculated under present law rate and base in 1979 (6.13 percent and \$22,900) employees share only. Income tax reduced by refundable credit equal to the increase in FICA liability due to the change in the rate from the prior law rate for 1977 (5.85 percent).

‡ Assumes deductible expenses equal to 23 percent of income.

§ 5.85 percent tax rate; \$16,500 maximum taxable earnings.

¶ Assumes extension of expiring 1977 provisions.

• 6.13 percent tax rate; \$22,900 maximum taxable earnings.

\* Each spouse assumed to earn 50 percent of income.



TABLE 6C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2741 (SENATOR DOMENICI) † (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2741 †			Change in tax		
	Income tax ‡	FICA tax §	Total tax	Income tax ‡	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$314	\$306	-\$8	\$86	\$14	\$100
\$10,000.....	291	585	876	418	613	1,031	127	28	155
\$15,000.....	1,205	877	2,083	1,288	919	2,207	83	42	125
\$20,000.....	2,014	1,087	3,101	2,124	1,226	3,350	110	139	249
\$25,000.....	2,932	1,087	4,019	3,086	1,404	4,490	154	317	471
\$30,000.....	3,945	1,087	5,032	4,168	1,404	5,572	222	317	539
\$40,000.....	6,313	1,087	7,400	6,784	1,404	8,188	471	317	788
\$50,000.....	9,193	1,087	10,280	9,886	1,404	11,290	693	317	1,010
\$100,000.....	27,666	1,087	28,753	28,816	1,404	30,220	1,150	317	1,466

† FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900) employees' share only. Income tax reduced by refundable credit equal to the increase in FICA liability due to the change in the rate from the prior law rate for 1977 (5.85 percent).

‡ Assumes deductible equal to 23 percent of income.

\* Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

† Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 6D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2741 (SENATOR DOMENICI)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES <sup>2</sup>

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2741 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000 .....	-\$400	\$292	-\$108	-\$314	\$306	-\$8	\$86	\$14	\$100
\$10,000 .....	291	585	876	418	613	1,031	127	28	155
\$15,000 .....	1,205	877	2,083	1,288	919	2,207	83	42	125
\$20,000 .....	2,014	1,170	3,184	2,124	1,226	3,350	110	56	166
\$25,000 .....	2,932	1,463	4,394	3,080	1,533	4,613	148	70	218
\$30,000 .....	3,945	1,755	5,700	4,148	1,839	5,987	203	84	287
\$40,000 .....	6,313	2,174	8,487	6,736	2,452	9,188	423	278	701
\$50,000 .....	9,193	2,174	11,367	9,822	2,808	12,630	629	633	1,262
\$100,000 .....	27,666	2,174	29,840	28,752	2,808	31,560	1,085	633	1,719

<sup>1</sup> FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by refundable credit equal to the increase in FICA liability due to the change in the rate from the prior law rate for 1977 (5.85 percent).

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 6E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2741 (SENATOR DOMENICI)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2741 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$271	\$306	\$36	\$129	\$14	\$143
\$10,000.....	291	585	876	493	613	1,106	202	28	230
\$15,000.....	1,205	877	2,083	1,345	919	2,265	140	42	182
\$20,000.....	2,014	1,087	3,101	2,214	1,226	3,440	200	139	339
\$25,000.....	2,932	1,087	4,019	3,203	1,502	4,704	271	415	686
\$30,000.....	3,945	1,087	5,032	4,334	1,502	5,836	389	415	804
\$40,000.....	6,313	1,087	7,400	7,053	1,502	8,555	740	415	1,155
\$50,000.....	9,193	1,087	10,280	10,266	1,502	11,768	1,074	415	1,488
\$100,000.....	27,666	1,087	28,753	29,332	1,502	30,834	1,666	415	2,081

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900) employees' share only. Income tax reduced by refundable credit equal to the increase in FICA liability due to the change in the rate from the prior law rate for 1977 (5.85 percent).

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 6F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES:\* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2741 (SENATOR DOMENICI)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2741 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$271	\$306	\$36	\$129	\$14	\$143
\$10,000.....	291	585	876	493	613	1,106	202	28	230
\$15,000.....	1,205	877	2,083	1,345	919	2,265	140	42	182
\$20,000.....	2,014	1,170	3,184	2,214	1,226	3,440	200	56	256
\$25,000.....	2,932	1,463	4,394	3,201	1,533	4,734	269	70	339
\$30,000.....	3,945	1,755	5,700	4,319	1,839	6,158	374	84	458
\$40,000.....	6,313	2,174	8,487	7,010	2,452	9,462	697	278	975
\$50,000.....	9,193	2,174	11,367	10,198	3,003	13,201	1,005	829	1,835
\$100,000.....	27,666	2,174	29,840	29,263	3,003	32,267	1,597	829	2,426

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900), employees' share only. Income tax reduced by refundable credit equal to the increase in FICA liability due to the change in the rate from the prior law rate for 1977 (5.85 percent).

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

**TABLE 7A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2746 (SENATOR HATFIELD) AS OF 1979: 4-PERSON, 1-EARNER FAMILIES**

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2746 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>2</sup>	Total	Income tax <sup>2,4</sup>	Social security tax <sup>4</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$300	\$292	-\$8	0	-\$14
\$10,000.....	446	585	1,031	446	613	1,059	446	585	1,031	0	-28
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,330	877	2,207	0	-43
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	2,180	1,170	3,350	\$205	-56
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	3,150	1,340	4,490	375	-64
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	4,232	1,340	5,572	375	-64
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,848	1,340	8,188	375	-64
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,950	1,340	11,290	375	-64
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	28,880	1,340	30,220	375	-64

<sup>1</sup> 1979 Social security tax calculated under prior law rate for 1977 (5.85 percent) and present law base for 1979 (\$22,900), employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

TABLE 7B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2746 (SENATOR HATFIELD)<sup>1</sup> AS OF 1979: 4-PERSON, 2-EARNER FAMILIES \*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2746 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	-\$306	\$6	-\$300	\$292	-\$8	0	-\$14
\$10,000.....	446	585	1,031	446	613	1,059	446	585	1,031	0	-28
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,330	877	2,207	0	-43
\$20,000.....	2,180	1,170	3,350	2,180	1,226	3,406	2,180	1,170	3,350	0	-56
\$25,000.....	3,150	1,463	4,613	3,150	1,532	4,682	3,150	1,463	4,613	0	-69
\$30,000.....	4,232	1,755	5,987	4,232	1,839	6,071	4,232	1,755	5,987	0	-84
\$40,000.....	6,848	1,931	8,779	6,848	2,452	9,300	6,843	2,340	9,188	\$409	-112
\$50,000.....	9,950	1,931	11,881	9,950	2,808	12,758	9,950	2,679	12,629	748	-129
\$100,000.....	28,880	1,931	30,811	28,880	2,808	31,688	28,880	2,679	31,559	748	-129

<sup>1</sup> 1979 Social security tax calculated under prior law rate for 1977 (5.85 percent) and present law base for 1979 (\$22,900), employees' share only.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

\* Each spouse assumed to earn 50 percent of income.

TABLE 7C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES:\* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2746 (SENATOR HATFIELD)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2746 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>2</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$292	-\$8	\$100	0	\$100
\$10,000.....	291	585	876	446	585	1,031	155	0	155
\$15,000.....	1,205	877	2,083	1,330	877	2,207	125	0	125
\$20,000.....	2,014	1,087	3,101	2,180	1,170	3,350	166	\$83	249
\$25,000.....	2,932	1,087	4,019	3,150	1,340	4,490	218	253	471
\$30,000.....	3,945	1,087	5,032	4,232	1,340	5,572	287	253	539
\$40,000.....	6,313	1,087	7,400	6,848	1,340	8,188	535	253	788
\$50,000.....	9,193	1,087	10,280	9,950	1,340	11,290	757	253	1,010
\$100,000.....	27,666	1,087 <sup>1</sup>	28,753	28,880	1,340	30,220	1,214	253	1,466

<sup>1</sup> 1979 FICA tax calculated under prior law rate for 1977 (5.85 percent) and present law base for 1979 (\$22,900), employees' share only.

<sup>2</sup> Assumes deductible equivalent 23 percent of income.

<sup>1</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\*Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 7D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2746 (SENATOR HATFIELD)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2746 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$300	\$292	-\$8	\$100	0	\$100
\$10,000.....	291	585	876	446	585	1,031	155	0	155
\$15,000.....	1,205	877	2,083	1,330	877	2,207	125	0	125
\$20,000.....	2,014	1,170	3,184	2,180	1,170	3,350	166	0	166
\$25,000.....	2,932	1,463	4,394	3,150	1,463	4,613	218	0	218
\$30,000.....	3,945	1,755	5,700	4,232	1,755	5,987	287	0	287
\$40,000.....	6,313	2,174	8,487	6,848	2,340	9,188	535	\$166	701
\$50,000.....	9,193	2,174	11,367	9,950	2,679	12,629	757	505	1,262
\$100,000.....	27,666	2,174	29,840	28,880	2,679	31,559	1,214	505	1,719

<sup>1</sup> 1979 FICA tax calculated under prior law rate for 1977 (5.85 percent) and present law base for 1979 (\$22,900), employees' share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\* Assumes a 12.6-percent increase in income from 1977 to 1979.



TABLE 7E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2746 (SENATOR HATFIELD)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2746 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$292	\$36	\$143	0	\$143
\$10,000.....	291	585	876	521	585	1,106	230	0	230
\$15,000.....	1,205	877	2,083	1,387	877	2,265	182	0	182
\$20,000.....	2,014	1,087	3,101	2,270	1,170	3,440	256	\$83	339
\$25,000.....	2,932	1,087	4,019	3,271	1,433	4,704	339	346	686
\$30,000.....	3,945	1,087	5,032	4,403	1,433	5,836	458	346	804
\$40,000.....	6,313	1,087	7,400	7,122	1,433	8,555	809	346	1,155
\$50,000.....	9,193	1,087	10,280	10,335	1,433	11,768	1,142	346	1,488
\$100,000.....	27,666	1,087	28,753	29,401	1,433	30,834	1,734	346	2,081

<sup>1</sup> 1979 FICA tax calculated under prior law rate for 1977 (5.85 percent) and present law base for 1980 (\$25,900), employees' share only.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 7F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2746 (SENATOR HATFIELD)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2746 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$257	\$292	\$36	\$143	0	\$143
\$10,000.....	291	585	876	521	585	1,106	230	0	230
\$15,000.....	1,205	877	2,083	1,387	877	2,265	182	0	182
\$20,000.....	2,014	1,170	3,184	2,270	1,170	3,440	256	0	256
\$25,000.....	2,932	1,463	4,394	3,271	1,463	4,734	339	0	339
\$30,000.....	3,945	1,755	5,700	4,403	1,755	6,158	458	0	458
\$40,000.....	6,313	2,174	8,487	7,122	2,340	9,462	809	\$166	975
\$50,000.....	9,193	2,174	11,367	10,335	2,866	13,201	1,142	692	1,835
\$100,000.....	27,666	2,174	29,840	29,401	2,866	32,267	1,734	692	2,427

<sup>1</sup> 1979 FICA tax calculated under prior law rate for 1977 (5.85 percent) and present law base for 1980 (\$25,000), employees' share only.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 8A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2808 (SENATOR DOLE) AS OF 1979: 4 PERSON, 1-EARNER FAMILIES

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2808 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>4</sup>	Social security tax <sup>4</sup>	Total	Income tax <sup>1</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$361	\$305	-\$55	-\$47	-\$61
\$10,000.....	446	585	1,031	446	613	1,059	323	613	936	-95	-123
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,146	919	2,065	-142	-185
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	1,935	1,226	3,161	16	-245
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	2,869	1,404	4,273	158	-281
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	3,951	1,404	5,355	158	-281
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,567	1,404	7,971	158	-281
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,669	1,404	11,073	158	-281
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	28,599	1,404	30,003	158	-281

<sup>1</sup> Social security tax calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by refundable credit equal to 20 percent of employee social security tax.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

TABLE 8B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2808 (SENATOR DOLE)<sup>1</sup> AS OF 1979: 4-PERSON, 2-EARNER FAMILIES \*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2808 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2,4</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000 .....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$361	\$306	-\$55	-\$47	-\$61
\$10,000 .....	446	585	1,031	446	613	1,059	323	613	936	-95	-123
\$15,000 .....	1,330	877	2,207	1,330	920	2,250	1,146	920	2,066	-141	-184
\$20,000 .....	2,180	1,170	3,350	2,180	1,226	3,406	1,935	1,226	3,161	-189	-245
\$25,000 .....	3,150	1,463	4,613	3,150	1,532	4,682	2,844	1,532	4,376	-237	-307
\$30,000 .....	4,232	1,755	5,987	4,232	1,839	6,071	3,864	1,839	5,703	-284	-368
\$40,000 .....	6,848	1,931	8,779	6,848	2,452	9,300	6,358	2,452	8,810	31	-490
\$50,000 .....	9,950	1,931	11,881	9,950	2,808	12,758	9,388	2,808	12,196	315	-562
\$100,000 .....	28,880	1,931	30,811	28,880	2,808	31,688	28,318	2,808	31,126	315	-562

<sup>1</sup> Social security tax calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by refundable credit equal to 20 percent of employee social security tax.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

\* Each spouse assumed to earn 50 percent of income.

TABLE 8C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2808 (SENATOR DOLE)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2808 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$361	\$306	-\$55	\$39	\$14	\$53
\$10,000.....	291	585	876	323	613	936	32	28	60
\$15,000.....	1,205	877	2,083	1,146	919	2,065	-59	42	-17
\$20,000.....	2,014	1,087	3,101	1,935	1,226	3,161	-79	139	60
\$25,000.....	2,932	1,087	4,019	2,869	1,404	4,273	-63	317	254
\$30,000.....	3,945	1,087	5,032	3,951	1,404	5,355	6	317	323
\$40,000.....	6,313	1,087	7,400	6,567	1,404	7,971	254	317	571
\$50,000.....	9,193	1,087	10,280	9,669	1,404	11,073	476	317	793
\$100,000.....	27,666	1,087	28,753	28,599	1,404	30,003	933	317	1,250

<sup>1</sup> FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by refundable credit equal to 20 percent of employee social security tax.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\* Assumes a 12.6 percent increase in income from 1977 to 1979.

TABLE 8D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2808 (SENATOR DOLE)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2808 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$361	\$306	-\$55	\$39	\$14	\$53
\$10,000.....	291	585	876	323	613	936	32	28	60
\$15,000.....	1,205	877	2,083	1,146	919	2,065	-59	42	-17
\$20,000.....	2,014	1,170	3,184	1,935	1,226	3,161	-79	56	-23
\$25,000.....	2,932	1,463	4,394	2,843	1,533	4,376	-88	70	-18
\$30,000.....	3,945	1,755	5,700	3,864	1,839	5,703	-81	84	3
\$40,000.....	6,313	2,174	8,487	6,358	2,452	8,810	45	278	322
\$50,000.....	9,193	2,174	11,367	9,388	2,808	12,196	196	633	829
\$100,000.....	27,666	2,174	29,840	28,318	2,808	31,126	652	633	1,286

<sup>1</sup> FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by refundable credit equal to 20 percent of employees' social security tax.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\* Assumes a 12.6-percent increase in income from 1977 to 1979.

**TABLE 8E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES:<sup>a</sup> 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2808 (SENATOR DOLE)<sup>b</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES**

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2808 <sup>c</sup>			Change in tax		
	Income tax <sup>1</sup>	FICA tax <sup>1</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$318	\$306	-\$11	\$82	\$14	\$96
\$10,000.....	291	585	876	398	613	1,011	107	28	135
\$15,000.....	1,205	877	2,083	1,203	919	2,123	-2	42	40
\$20,000.....	2,014	1,087	3,101	2,025	1,226	3,251	11	139	150
\$25,000.....	2,932	1,087	4,019	2,971	1,502	4,473	39	415	454
\$30,000.....	3,945	1,087	5,032	4,103	1,502	5,604	157	415	572
\$40,000.....	6,313	1,087	7,400	6,822	1,502	8,323	508	415	923
\$50,000.....	9,193	1,087	10,280	10,035	1,502	11,536	842	415	1,257
\$100,000.....	27,666	1,087	28,753	29,100	1,502	30,602	1,434	415	1,849

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900), employees' share only. Income tax reduced by refundable credit equal to 20 percent of employee's social security tax.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

<sup>a</sup> Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 8F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2808 (SENATOR DOLE)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2808 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$318	\$306	-\$11	\$82	\$14	\$96
\$10,000.....	291	585	876	398	613	1,011	107	28	135
\$15,000.....	1,205	877	2,083	1,203	919	2,123	-2	42	40
\$20,000.....	2,014	1,170	3,184	2,025	1,226	3,251	11	56	67
\$25,000.....	2,932	1,463	4,394	2,965	1,533	4,497	33	70	103
\$30,000.....	3,945	1,755	5,700	4,035	1,839	5,874	90	84	174
\$40,000.....	6,313	2,174	8,487	6,631	2,452	9,083	318	278	596
\$50,000.....	9,193	2,174	11,367	9,734	3,003	12,738	542	829	1,371
\$100,000.....	27,666	2,174	29,840	28,800	3,003	31,804	1,134	829	1,963

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900), employees' share only. Income tax reduced by refundable credit equal to 20 percent of employee social security tax.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees share only.

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.



TABLE 9A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2811 AND S. 2812 (SENATOR DANFORTH)<sup>1</sup> AS OF 1979: 4-PERSON, 1-EARNER FAMILIES

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2811 and S. 2812 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$431	\$306	-\$124	-\$117	-\$130
\$10,000.....	446	585	1,031	446	613	1,059	224	613	837	-194	-222
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,109	920	2,029	-179	-221
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	1,888	1,226	3,114	-31	-292
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	2,788	1,404	4,192	77	-362
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	3,802	1,404	5,205	8	-431
\$40,000.....	6,848	865	7,813	6,848	1,404	8,252	6,386	1,404	7,789	-24	-463
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,050	1,404	10,453	-462	-901
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	27,528	1,404	28,931	-914	-1,353

<sup>1</sup> Social security tax calculated under present law rates and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax calculated under S. 2811 proposals and reduced by a refundable credit equal to 10 percent of employee social security tax liability.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.  
<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.  
<sup>4</sup> Assumes extension of expiring 1977 provisions.  
<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

TABLE 9B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2811 AND S. 2812 (SENATOR DANFORTH)<sup>1</sup> AS OF 1979: 4-PERSON, 2-EARNER FAMILIES \*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2811 and S. 2812 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>4</sup>	Social security tax <sup>5</sup>	Total	Income tax <sup>6</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$431	\$306	-\$124	-\$117	-\$130
\$10,000.....	446	585	1,031	446	613	1,059	224	613	837	-194	-222
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,109	920	2,029	-179	-221
\$20,000.....	2,180	1,170	3,350	2,180	1,226	3,406	1,888	1,226	3,114	-236	-292
\$25,000.....	3,150	1,463	4,613	3,150	1,532	4,682	2,775	1,532	4,308	-305	-374
\$30,000.....	4,232	1,755	5,987	4,232	1,839	6,071	3,758	1,839	5,597	-390	-474
\$40,000.....	6,848	1,931	8,779	6,848	2,452	9,300	6,281	2,452	8,733	-46	-567
\$50,000.....	9,950	1,931	11,881	9,950	2,808	12,758	8,909	2,808	11,717	-164	-1,041
\$100,000.....	28,880	1,931	30,811	28,880	2,808	31,688	27,387	2,808	30,195	-616	-1,493

<sup>1</sup> Social security tax calculated under present law rates and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax calculated under S. 2811 proposal and reduced by a refundable credit equal to 10 percent of employee social security tax liability.  
<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.

<sup>4</sup> Assumes extension of expiring 1977 provisions.

<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

\*Each spouse assumed to earn 50 percent of total family income.

TABLE 9C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES:\* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2811 AND S. 2812 (SENATOR DANFORTH)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2811 and S. 2812 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$431	\$306	-\$124	-\$31	\$14	-\$17
\$10,000.....	291	585	876	224	613	837	-68	28	-40
\$15,000.....	1,205	877	2,083	1,109	919	2,029	-96	42	-54
\$20,000.....	2,014	1,087	3,101	1,888	1,226	3,114	-126	139	13
\$25,000.....	2,932	1,087	4,019	2,788	1,404	4,192	-144	317	173
\$30,000.....	3,945	1,087	5,032	3,802	1,404	5,205	-144	317	173
\$40,000.....	6,313	1,087	7,400	6,386	1,404	7,789	73	317	389
\$50,000.....	9,193	1,087	10,280	9,050	1,404	10,453	-143	317	174
\$100,000.....	27,666	1,087	28,753	27,528	1,404	28,931	-139	317	178

<sup>1</sup> FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900) employees' share only. Income tax calculated under S. 2811 proposals and reduced by a refundable credit equal to 10 percent of employee FICA liability.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\* Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 9D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2811 AND S. 2812 (SENATOR DANFORTH)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2811 and S. 2812 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$431	\$306	-\$124	-\$31	\$14	-\$17
\$10,000.....	291	585	876	224	613	837	-68	28	-40
\$15,000.....	1,205	877	2,083	1,109	919	2,029	-96	42	-54
\$20,000.....	2,014	1,170	3,184	1,888	1,226	3,114	-126	56	-70
\$25,000.....	2,932	1,463	4,394	2,775	1,533	4,308	-157	70	-87
\$30,000.....	3,945	1,755	5,700	3,758	1,839	5,597	-187	84	-103
\$40,000.....	6,313	2,174	8,487	6,281	2,452	8,733	-32	278	246
\$50,000.....	9,193	2,174	11,367	8,909	2,808	11,717	-284	633	350
\$100,000.....	27,666	2,174	29,840	27,387	2,808	30,195	-279	633	354

<sup>1</sup> FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax calculated under S. 2811 proposals and reduced by a refundable credit equal to 10 percent of employee FICA liability.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\*Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 9E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2811 AND S. 2812 (SENATOR DANFORTH)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2811 and S. 2812 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$439	\$306	-\$132	-\$39	\$14	-\$25
\$10,000.....	291	585	876	214	613	827	-77	28	-49
\$15,000.....	1,205	877	2,083	1,099	919	2,019	-106	42	-64
\$20,000.....	2,014	1,087	3,101	1,875	1,226	3,101	-139	139	0
\$25,000.....	2,932	1,087	4,019	2,766	1,502	4,268	-166	415	249
\$30,000.....	3,945	1,087	5,032	3,777	1,502	5,279	-168	415	247
\$40,000.....	6,313	1,087	7,400	6,142	1,502	7,644	-171	415	244
\$50,000.....	9,193	1,087	10,280	9,022	1,502	10,524	-171	415	244
\$100,000.....	27,666	1,087	28,753	27,492	1,502	28,994	-174	415	241

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900) employees share only. Income tax calculated under S. 2811 proposals and reduced by a refundable credit equal to 10 percent of employee FICA liability.

<sup>2</sup> Assume deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\*Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 9F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2811 AND S. 2812 (SENATOR DANFORTH)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2811 and S. 2812 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$439	\$306	-\$132	-\$39	\$14	-\$25
\$10,000.....	291	585	876	214	613	827	-77	28	-49
\$15,000.....	1,205	877	2,083	1,099	919	2,019	-106	42	-64
\$20,000.....	2,014	1,170	3,184	1,875	1,226	3,101	-139	56	-83
\$25,000.....	2,932	1,463	4,394	2,763	1,533	4,295	-169	70	-99
\$30,000.....	3,945	1,755	5,700	3,744	1,839	5,583	-202	84	-118
\$40,000.....	6,313	2,174	8,487	6,047	2,452	8,499	-266	278	12
\$50,000.....	9,193	2,174	11,367	8,872	3,003	11,876	-321	829	509
\$100,000.....	27,666	2,174	29,840	27,342	3,003	30,346	-324	829	505

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900), employees' share only. Income tax calculated under S. 2811 proposals and reduced by a refundable credit equal to 10 percent of employee FICA liability.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 10A.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2812 (SENATOR DANFORTH)<sup>1</sup> AS OF 1979: 4 PERSON, 1-EARNER FAMILIES

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2812 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$331	\$306	-\$25	-\$17	-\$31
\$10,000.....	446	585	1,031	446	613	1,059	385	613	998	-33	-61
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,238	920	2,158	-49	-92
\$20,000.....	2,180	965	3,145	2,180	1,226	3,406	2,057	1,226	3,283	138	-123
\$25,000.....	3,150	965	4,115	3,150	1,404	4,554	3,010	1,404	4,414	299	-140
\$30,000.....	4,232	965	5,197	4,232	1,404	5,636	4,092	1,404	5,496	299	-140
\$40,000.....	6,848	965	7,813	6,848	1,404	8,252	6,708	1,404	8,112	299	-140
\$50,000.....	9,950	965	10,915	9,950	1,404	11,354	9,810	1,404	11,214	299	-140
\$100,000.....	28,880	965	29,845	28,880	1,404	30,284	28,740	1,404	30,144	299	-140

<sup>1</sup> Social security tax calculated under present law rates and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by a refundable credit equal to 10 percent of employee social security tax liability.  
<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.  
<sup>4</sup> Assumes extension of expiring 1977 provisions.  
<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.

TABLE 10B.—COMPARISON OF SOCIAL SECURITY AND INCOME TAXES UNDER 1977 TAX PROVISIONS—PRESENT LAW AS OF 1979, AND S. 2812 (SENATOR DANFORTH)<sup>1</sup> AS OF 1979: 4 PERSON, 2-EARNER FAMILIES \*

Wage income	1977 taxes			1979 taxes: Present law			1979 taxes: S. 2812 <sup>1</sup>			Change in total taxes	
	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax <sup>3</sup>	Total	Income tax <sup>2</sup>	Social security tax	Total	From 1977 taxes	From 1979 taxes under present law
\$5,000.....	-\$300	\$292	-\$8	-\$300	\$306	\$6	-\$331	\$306	-\$25	-\$17	-\$31
\$10,000.....	446	585	1,031	446	613	1,059	385	613	998	-33	-61
\$15,000.....	1,330	877	2,207	1,330	920	2,250	1,238	920	2,158	-49	-92
\$20,000.....	2,180	1,170	3,350	2,180	1,226	3,406	2,057	1,226	3,283	-67	-123
\$25,000.....	3,150	1,463	4,613	3,150	1,532	4,682	2,997	1,532	4,529	-84	-153
\$30,000.....	4,232	1,755	5,987	4,232	1,839	6,071	4,048	1,839	5,887	-100	-184
\$40,000.....	6,848	1,931	8,779	6,848	2,452	9,300	6,603	2,452	9,055	276	-245
\$50,000.....	9,950	1,931	11,881	9,950	2,808	12,758	9,669	2,808	12,477	596	-281
\$100,000.....	28,880	1,931	30,811	28,880	2,808	31,688	28,599	2,808	31,407	596	-281

<sup>1</sup> Social security tax calculated under present law rates and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by a refundable credit equal to 10 percent of employee social security tax liability.  
<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> 5.85 percent tax rate; \$16,500 maximum taxable earnings.  
<sup>4</sup> Assumes extension of expiring 1977 provisions.  
<sup>5</sup> 6.13 percent tax rate; \$22,900 maximum taxable earnings.  
<sup>6</sup> Each spouse assumed to earn 50 percent of income.



TABLE 10C.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2812 (SENATOR DANFORTH)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2812 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$331	\$306	-\$25	\$69	\$14	\$83
\$10,000.....	291	585	876	385	613	998	93	28	121
\$15,000.....	1,205	877	2,083	1,238	919	2,158	33	42	75
\$20,000.....	2,014	1,087	3,101	2,057	1,226	3,283	43	139	182
\$25,000.....	2,932	1,087	4,019	3,010	1,404	4,414	78	317	395
\$30,000.....	3,945	1,087	5,032	4,092	1,404	5,496	146	317	463
\$40,000.....	6,313	1,087	7,400	6,708	1,404	8,112	395	317	711
\$50,000.....	9,193	1,087	10,280	9,810	1,404	11,214	617	317	934
\$100,000.....	27,666	1,087	28,753	28,740	1,404	30,144	1,073	317	1,390

<sup>1</sup> FICA calculated under present law rates and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by a refundable credit equal to 10 percent of employee FICA liability.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\* Assumes a 12.6-percent increase in income from 1977 to 1979.

**TABLE 10D.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1979 TAX UNDER S. 2812 (SENATOR DANFORTH) † (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES ‡**

1979 levels of wage income	1977 tax under present law			1979 tax under S. 2812 †			Change in tax		
	Income tax ‡	FICA tax †	Total tax	Income tax ‡	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000 .....	-\$400	\$292	-\$108	-\$331	\$306	-\$25	\$69	\$14	\$83
\$10,000 .....	291	585	876	385	613	998	93	28	121
\$15,000 .....	1,205	877	2,083	1,238	919	2,158	33	42	75
\$20,000 .....	2,014	1,170	3,184	2,057	1,226	3,283	43	56	99
\$25,000 .....	2,932	1,463	4,394	2,997	1,533	4,530	65	70	135
\$30,000 .....	3,945	1,755	5,700	4,048	1,839	5,887	103	84	187
\$40,000 .....	6,313	2,174	8,487	6,603	2,452	9,055	290	278	568
\$50,000 .....	9,193	2,174	11,367	9,669	2,808	12,477	476	633	1,110
\$100,000 .....	27,666	2,174	29,840	28,599	2,808	31,407	933	633	1,566

† FICA calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only. Income tax reduced by a refundable credit equal to 10 percent of employee FICA liability.

‡ Assumes each spouse earns 50 percent of total family income.

\* Assumes deductible expenses equal to 23 percent of income.

† Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\* Assumes a 12.6-percent increase in income from 1977 to 1979.

TABLE 10E.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES:\* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2812 (SENATOR DANFORTH)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 1-EARNER FAMILIES

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2812 <sup>1</sup>			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$287	\$306	\$19	\$113	\$14	\$127
\$10,000.....	291	585	876	460	613	1,073	168	28	196
\$15,000.....	1,205	877	2,083	1,295	919	2,215	90	42	132
\$20,000.....	2,014	1,087	3,101	2,148	1,226	3,374	134	139	273
\$25,000.....	2,932	1,087	4,019	3,121	1,502	4,623	189	415	604
\$30,000.....	3,945	1,087	5,032	4,253	1,502	5,755	308	415	722
\$40,000.....	6,313	1,087	7,400	6,972	1,502	8,473	659	415	1,073
\$50,000.....	9,193	1,087	10,280	10,185	1,502	11,687	992	415	1,407
\$100,000.....	27,666	1,087	28,753	29,251	1,502	30,752	1,584	415	1,999

<sup>1</sup> FICA calculated under present law rates and base for 1980 (6.13 percent and \$25,900), employees' share only. Income tax reduced by a refundable credit equal to 10 percent of employee FICA liability.

<sup>2</sup> Assumes deductible equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500).

\*Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

TABLE 10F.—COMBINED INCOME AND SOCIAL SECURITY TAX FOR EQUIVALENT REAL INCOMES: \* 1977 TAX UNDER PRESENT LAW VERSUS 1980 TAX UNDER S. 2812 (SENATOR DANFORTH)<sup>1</sup> (1979 DOLLARS) 4-PERSON, 2-EARNER FAMILIES<sup>2</sup>

1979 levels of wage income	1977 tax under present law			1980 tax under S. 2812 <sup>1</sup>			Change in tax		
	Income tax <sup>3</sup>	FICA tax <sup>4</sup>	Total tax	Income tax <sup>3</sup>	FICA tax	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-\$400	\$292	-\$108	-\$287	\$306	\$19	\$113	\$14	\$127
\$10,000.....	291	585	876	460	613	1,073	168	28	196
\$15,000.....	1,205	877	2,083	1,295	919	2,215	90	42	132
\$20,000.....	2,014	1,170	3,184	2,148	1,226	3,374	134	56	190
\$25,000.....	2,932	1,453	4,394	3,118	1,533	4,651	186	70	256
\$30,000.....	3,945	1,755	5,700	4,219	1,839	6,058	274	84	358
\$40,000.....	6,313	2,174	8,487	6,877	2,452	9,329	564	278	842
\$50,000.....	9,193	2,174	11,367	10,035	3,003	13,038	842	829	1,671
\$100,000.....	27,666	2,174	29,840	29,100	3,003	32,104	1,434	829	2,264

<sup>1</sup> FICA calculated under present law rate and base for 1980 (6.13 percent and \$25,900), employees' share only. Income tax reduced by a refundable credit equal to 10 percent of employee FICA liability.

<sup>2</sup> Assumes each spouse earns 50 percent of total family income.

<sup>3</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>4</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

\* Assumes an increase in income equal to 12.6 percent from 1977 to 1979 and 5.7 percent from 1979 to 1980.

Senator BYRD. What do you consider to be the rate of inflation today?

Secretary BLUMENTHAL. Well, the economic assumptions upon which the President's proposal is based were an underlying rate of 6 percent to 6.5 percent. There has been some recent evidence that it may be a bit higher than that.

Let me just inquire, I am not sure what the level of inflation was that was used as the basis for the figures that I cited, including inflation. We used numbers that were consistent with the budget.

Senator BYRD. Well, those numbers—they were outdated, were they not?

Secretary BLUMENTHAL. Slightly. Not very much.

In other words, there is some evidence that the underlying rate of inflation is above the level of 6 percent to 6.5 percent, but not by much. We would, in constructing the additional tables, make them consistent with our official forecast in order to keep some comparability in the assumptions.

Senator BYRD. Thank you.

Senator LONG. Thank you. I have no further questions.

Thank you very much, Mr. Secretary.

[The prepared statement of Secretary Blumenthal follows:]

TESTIMONY OF HON. W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY

Mr. Chairman and Members of this distinguished Committee: When this Administration came into office in 1977, it was confronted with a difficult and persistent financial solvency problem in the social security system. Briefly, the problem had two facets: one, short-term and the other, long-term. The short-term financial condition of the trust funds had deteriorated as a result of the worst recession since the Thirties, which reduced receipts below projections, and the worst inflation since World War I, which boosted benefit outlays above projections. The prospect of continuing financial deterioration was present, even though annual increases in the wage base had already been mandated in law. Reserves in the Disability Trust Fund were expected to be depleted by 1979, and the Old Age and Survivors Trust Fund was expected to run out of reserves by 1983, according to estimates by the Funds' Trustees. Overall, the combined OASDI Trust Fund, which had a \$41.1 billion reserve at the end of 1976, would have been exhausted by 1982.

The longer-term solvency problem was the result, in part, of an indexing flaw which had been introduced into the benefit formula in 1972 and which overcompensated benefits for inflation. About one-half of the projected long-term deficit of the Trust Funds was the result of this inappropriate indexing calculation.

The other half of the long-term deficit reflected changes in the projected composition of our population over the next 75 years. Declines in birth and mortality rates are expected to change the present three-to-one ratio of workers to beneficiaries to a two-to-one ratio in the next century, thus increasing the projected growth in benefits and decreasing the projected growth in receipts. As a consequence, for the 75-year period running to 2051, the trust funds were expected to incur an average deficit of 8.2 percent of future taxable payrolls. The Trustees of the Social Security Trust Funds told the Congress, in their 1977 report, that the system was in critical need of financial support to restore the solvency of the system in both the short- and longer-term.

This was essentially the problem worrying the American people, and the issue squarely faced last year by this Administration and the 95th Congress. Both responded to the concerns of the American public, which overwhelmingly supports the social security system and which, clearly, favors raising additional taxes to save the system from insolvency.

Many proposals were made during 1977, both in the Administration and the two branches of Congress. After considerable debate and deliberation, the Congress

enacted the Social Security Amendments of 1977 which effectively eliminate the anticipated trust fund deficits, and restore trust fund reserves to healthy levels adequate for meeting contingencies. This was done by increasing both payroll tax rates and the wage base on which the taxes are levied.

It is worth noting that all of the payroll tax increases taking place this year—amounting to \$5.2 billion—are the result of legislation enacted in 1972, even before the financial situation of the funds reached critical levels. And more than half of the tax increase scheduled for 1978 (\$8.6 billion of the \$15 billion projected rise in tax collections) reflects pre-1977 legislation.

I emphasize this point to put the near-term problem into perspective. The fact is that the need for substantial increases in revenues for social security system has been evident for some time. Even without the special drain on the trust funds resulting from the recession and inflation of the mid-70's, the changing age structure of the population and the desire to improve retirement benefits required increased tax levies on the working population. While the problem was exacerbated by the economic events of 1973-76, the fundamental need to "pay now to enjoy later" has been recognized for several years and partially accommodated by automatically raising the tax base.

The legislation enacted in 1977 wisely did not attempt to cure the entire solvency problem in one huge step. The rise in taxes attributable to the 1977 amendments is relatively small for the bulk of taxpayers. For example, the worker earning \$15,000 in 1979 will pay \$920 for social security contributions. Of this, 908 reflects the social security amendments of 1972; only 12 is attributable to the additional taxes enacted last year. In fact, the additional tax will not exceed \$260 for any one earner in 1979, and the top increase of \$260 will only occur if the employee earns \$22,900 or more. Of the 113 million projected contributors to social security in 1979, only \$10 million or 9 percent will earn \$22,900 or more, whereas 103 million will earn less than \$22,900. For those below the \$22,900 breakpoint, most will have hardly any social security tax increase next year resulting from the legislation enacted by the 95th Congress.

I emphasize this point because the public's attention has been directed to the potential tripling in the dollar amount of social security tax payments over the next 10 years as a result of the recent legislation. This potential has to be put into perspective. First, half of the prospective increase is the result of legislation in force since 1972. Second, the emphasis on the rise in potential tax payments overlooks the rise in projected earnings. The burden of social security taxes—that is, the share of income absorbed by these taxes—will rise to be sure, but by far less than the dramatic tripling emphasized in press accounts.

#### 1979 FICA TAX (EMPLOYEE)

Wage or salary income	FICA tax		
	Prior law	1977 law	Difference
\$5,000.....	302	306	+4
\$10,000.....	605	613	+8
\$15,000.....	908	920	+12
\$20,000.....	1,144	1,226	+82
\$25,000.....	1,144	1,404	+260

It is important, therefore, in considering the 1977 legislation, neither to overstate the impact of the additional taxes imposed nor to underestimate the benefits that will accrue to participants in the social security system. The tax increases enacted by this Congress were designed to be least burdensome on the low and moderate income workers covered by social security. And these increases would be more offset by the proposed reductions in income taxes recommended in the President's tax program. For a four-person, one-earner family, the proposed income tax reduction would offset the rise in social security taxes—both those resulting from the 1977 amendments and those reflecting earlier legislation—up to more than \$20,000 in annual income. For four-person, two-earner families, the offset is complete up to more than \$30,000 in annual income. Thus even with the scheduled rise in social security taxes next year, the overall Federal tax burden would be reduced, in 1979, for the vast bulk of American taxpayers.

At the same time, the social security tax increases have removed the immediate threat of trust fund deficits, thereby allaying the fears of \$33 million social

security beneficiaries. We believe that most Americans are willing to pay additional taxes levied to keep the system solvent, an indication of how highly our electorate values the prospect of dignity in retirement.

By virtue of the new tax schedule, the Congress has effectively eliminated the projected short-term deficit. Instead of having completely depleted reserves by 1982, the 1982 reserve ratio in the OASDI fund (that is beginning-of-year reserve as a percent of the 1982 outlays) would be 30 percent, a level considered reasonable to meet contingencies.

#### BEGINNING RESERVE RATIO IN OASDI TRUST FUND

(Amounts in percent)

Year:	Prior to 1977 amendments	1977 amendments
1977.....	47	47
1978.....	36	37
1979.....	27	29
1980.....	18	26
1981.....	9	25
1982.....	0	30

In addition, the 1977 Amendment substantially improves the longer range actuarial status of the trust funds, by removing the indexing flaw which over-compensated benefits for inflation. The OASDI trust funds will run a surplus for the next 25 years of 0.97 percent of taxable payroll. Over the next 75 years, it is estimated that instead of an average deficit of 8.2 percent of taxable payroll, the fund will have a mild deficit of 1.46 percent on the average.

Having developed—after careful study and long deliberation—a system of contributions adequate to meet the needs of this and future generations of retirees, it would in our judgment be unwise to undo this progress by hasty action. Such action is also unnecessary, because the income tax reduction and reform proposals submitted by the President—so sorely needed to meet other important economic and social objectives—would at the same time offset the near-term scheduled rise in social security taxes.

What is needed is more careful deliberation and examination of the options available to us. The Congress will, in coming months, have several opportunities for weighing alternatives, since there are four separate commissions or study groups looking at various aspects of the social security problem. The National Commission on Social Security, which was authorized under the 1977 Social Security Amendments and whose members are appointed partly by the Congress and partly by the President, has been given the mandate of studying and reporting within two years on the fiscal status of the Old Age, Disability and Health Insurance Trust Funds and the adequacy of such trust funds to meet the immediate and long-range financing needs of such programs. The Commission will examine the scope of coverage, the adequacy of benefits, the impact of social security, disability and health insurance programs on other government income transfer programs and alternative financing methods.

The quadrennial Advisory Council on Social Security is also authorized to review the status of the social security trust funds including the scope of coverage, methods of financing social security problems, and the impact of social security on public assistance programs. The Council is required to submit reports of its findings and recommendations to the Secretary of Health, Education and Welfare by October 1, 1979.

An additional study is authorized under the 1977 Amendments. It will evaluate the integration of the social security and the Federal Civil Service retirement systems. In addition it will evaluate the impact of full coverage of State and local employees under social security. The report of this study is due by the end of next year.

Finally, the President has proposed the establishment of a Commission on Retirement Policy to provide a comprehensive analysis of the retirement and disability structure of the United States, including the Nation's retirement and disability needs for the next 60 years and the financial ability of the existing public and private retirement systems to meet those needs; the financing mechanisms

and benefit structures of the present public and private systems; the overlaps and gaps in the present benefit structures; and the role of individual savings in meeting retirement and disability needs.

As this list of commissions and studies indicates, the wide range of the complex issues involved in any modification of the social security system will be thoroughly examined in coming months. It is clear that decisions taken with respect to any of these issues have wide ramifications. For example, the issue of expanding the coverage of the social security system through integration of the system with other public and private pension systems is an important element in calculating future costs and, therefore, the necessity for additional revenues.

It may be that a reexamination of the benefits schedule will also suggest changes in the system's financing requirements. In this connection, it is worth noting that a recent poll indicated that respondents were about evenly divided when confronted with a choice between future tax increases and limits on such increases even at the cost of lower benefits. To me, the poll suggests that the public accepts and endorses the concept of a strong link between contributions and benefits, at least for the retirement aspects of the system. Any actions to sever or strain this link must keep in mind the strength of this tradition, a factor which underlays the decisions taken by the Congress in enacting the 1977 amendments to the social security system.

In light of the complexity of the issues involved, and also in light of the coming availability of thorough, dispassionate and highly competent examination of the social security system, it is our conclusion that any changes should have the benefit of these forthcoming reviews.

Senator LONG. Now I am going to suggest that we change our approach somewhat so we can hear all three of the scheduled witnesses in the morning session. I have discussed this with Senator Nelson and in fact it is in considerable measure his suggestion that we proceed this way.

In order that we hear all the witnesses in the morning session, I am going to ask that Mr. Keyserling come and present his testimony in chief at this time and we will interrogate Mr. Keyserling after we have heard Ms. Rivlin. If we do that, we can hear both witnesses in the morning session and we can interrogate in the afternoon.

Would you be so kind, Mr. Keyserling, as to present your statement at this time? Senator Nelson is going to be back in just a moment or two as soon as that vote gets going, so if you want to wait for him, you can.

[A brief recess was had.]

Senator NELSON. Our next witness is Mr. Leon Keyserling, former Chairman of the Council of Economic Advisers. The committee is very pleased to have you appear this morning and give us the benefit of your testimony. We regret you were so long delayed in having the opportunity to testify.

Go ahead, Mr. Keyserling.

#### **STATEMENT OF LEON KEYSERLING, PRESIDENT, CONFERENCE ON ECONOMIC PROGRESS, AND FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS**

Mr. KEYSERLING. Mr. Chairman and members of the subcommittee, I have listened eagerly to the comments of the members of the subcommittee. I must say that I wish that they could all hear immediately, from what I have to say now, that I am in almost entire agreement with all of what they have said, insofar as all of them have



directed various aspects of criticism to the tax proposals offered by the President.

What it really boils down to is that they have begun, with the statement by Senator Haskell, to assert that what we need is "one rational whole", and that has been reflected also in some of the statements of the minority members of the committee. One rational whole.

In other words, we need to put together what we have done over the years in tax policy and what we ought to learn from it. What is the condition of the economy and how does tax policy relate to it? What is the outlook for the economy and how does tax policy relate to it?

We need to reconsider whether it is enough, as we have done so many times, to say, the economy needs stimulation, let's give it a shot in the arm; and then, on a sort of irrational or catch-as-catch-can basis, decide how much each taxpayer gets without any real examination of where you want to pour the stimulus into the different parts of the economy, to get the maximum results, from the viewpoint both of the economic performance and those equitable considerations which I think we are a rich enough Nation to indulge in.

Now, just as I have agreed, from that point of view, with so much of what I have heard from members of the subcommittee, I am sorry to say that I must profoundly disagree with a good deal of what I have heard from the Secretary of the Treasury.

Going back to the legal maxim, to tell the truth, the whole truth, and nothing but the truth, I certainly would not accuse him of misrepresentation, but he has certainly not portrayed the whole situation reflecting a proper analysis of how the tax program now proposed by the administration would work, and has neglected also the broader question, which I think should have come first from a businessman, as to what kind of a tax reduction will do most for the improved performance of the American economy.

Now, the analysis I am going to make, within the time limits, and I could say a lot more, is divided into three parts.

First, to try to look at the American economy. Now, we heard a good deal here in the discussion before the subcommittee about a quick fix. The only quick fix in this whole proposition is the administration's proposal. An administration that came before us with the \$50 tax cut and changed its mind in a month; an administration that was for lifting the burden of the social security tax last year and is for not lifting it this year; an administration that does not offer the kind of pragmatic examination of how the taxes bear upon the economy; an administration that says it is going to do a lot more next year but does not know what, is hardly in a position to inveigh against Senator Nelson's proposed more social security which, in my view, represents the measured analysis of people who have been studying this for a long, long time and with whom others may disagree but who at least—

Now, let me just say a word, which I hope will not sound prideful. Between 1933 and 1935 I spent a great part of my time in helping to draft and prepare the supporting materials for the original Social Security Act of 1935. Senator Long was correct in saying—and I am not claiming major responsibility, but merely to say that I was in it—

it was one of the greatest legislative achievements within the lives of anybody in this room.

During the 43 years since 1935, I have been endeavoring to look at how national policy affects the economy and to learn by observing what is actually happening in the great laboratory of the American experience, a process which I often find so lacking when I hear top administrative officials testify.

We started out in 1964 on a binge of tax reductions. That one was the most glamorous and heralded of all. I was before this committee at that time; I had my reservations about it. It turned out just about the way I expected. It had not been thought through. We poured the money into the wrong places. It gave the economy a shot in the arm for a year or two and then we had the beginning of the basic troubles that we have had since—more inflation, slower growth, more unemployment, bigger budget deficits.

The members of this subcommittee here today are entirely correct in saying that the whole problem involves among other things the problem of a balanced budget and relates to the problem of inflation. But to draw the connecting link, you have to realize also that everything relates, in the final analysis, to how much wealth and product is turned out by the American economy per capita, because what is turned out is used, and the people benefit by it, in terms of rising living standards. And when it is not used, it is not turned out. The plant capacity goes down to 82 percent, the unemployment goes up to 10 percent if you count it right, including drop-outs and the full-time equivalent of part-time unemployment.

So, this is the central problem. I have a number of charts in my testimony which I will not even talk about today that show the incontestable and absolute connection between the condition of the Federal budget and the condition of the national economy, between the amount of inflation and the condition of the national economy. So anybody who is talking about worrying about inflation as they consider tax proposals, anybody who is worrying about the condition of the Federal budget as it affects tax proposals should always bear in mind that a healthy budget and healthy price trend depend upon high production and low unemployment. The condition of the Federal budget is not affected by whether you shift the tax take from one label to another, or whether you pay the money out of one fund or another. The condition of the budget is affected by how much the Government takes in and how much the Government puts out in totality, and it is affected mostly on the take-in side, because it can be shown over the years, we had to put out a lot of money during the 7 years I was with Truman. We had the biggest war since World War II on our hands, bigger than the Vietnam war, related to the size of the economy. But because we realized that you could not squeeze the blood of Federal revenues out of the turnip of a starved economy, and that the Government would balance the budget if you had the economy running full tilt, we had a budget surplus, despite that war and despite everything else, because we were committed to calling forth the great secret weapon of the American economy's unique productive power.

Likewise with inflation. This tradeoff has been hung around our neck for 24 years and the Treasury is still spouting it. I heard the Sec-

retary say that he was worried that if we got near to bottlenecks next year or the year after that, we would have to worry about inflation. Let's translate that into plain English—he is worried that we might get back to the full use of our economy too fast, and that if we get plant capacity up from 82 percent to 92 percent, get unemployment down from 10 percent, if you count it right, to 4 or 5 percent, on the way to 4 or 3 percent, that we run into bottlenecks and that we will have inflationary problems.

This erroneous idea—that the full restoration of production and employment add to inflation—is an absolute reiteration of what has entered into the administration's tax proposal and what has entered into other current programs, and what is going to give us, in another year or two, what we have had with meticulous regulatory every few years, another recession bigger than the last one, accompanied by still more inflation and accompanied by a still bigger budget deficit.

Now, this first chart of mine. I will spend very little time on this. This shows what I call the roller-coaster economic performance, how the American economy has behaved for the last 25 years. What is the outstanding characteristic? The outstanding characteristic, and you can find it by looking at chart 1 in your copy of my testimony if you cannot see the blown-up chart clearly, the outstanding characteristic is first, that we move upward and downward and sideward with metronome regularity and the only way it has not been like a metronome is that each recession has gotten worse and each upturn has gotten poorer.

The last recession was the worst; the current upturn has been the poorest. The current upturn has left us, near its peak, with more unused resources than three of the five recessions at their troughs.

Now, that is what we have to deal with, and that is what tax policy has to deal with.

Now, let's come to the next chart—and I think, under the circumstances, we may do as well, if you look at my testimony, instead of straining to look at the blown-up charts that I have there.

What are the costs of this? People talk about costs and benefits, the cost of this over those 25 years at a constantly increasing cost per year has been \$5.3 trillion of national production, 1977 dollars, conservatively estimated, as indicated by the footnotes.

The cost has been 72 million man-woman-and-teenager-years of unemployment above the levels consistent with the full employment, and that is where the Federal deficit has come from, and that is where the impoverishment of the social security fund has come from, and that is where the plight of our cities has come from, although they may have committed some local aberrations. That is where it has all come from, the deficits in employment and production.

The budget deficits, the—I would not say bankruptcy, but the troubles of the social security program, the whole ball of wax, is a matter of using tax policy to help get the American economy moving again.

Now, I am going to move next to the chart which is on chart 5, comparative growth rates. It is a striking thing that neither the Secretary of the Treasury nor the administration, nor the Economic Report of the President, nor the analyses—let me say a word about studies. We can study things forever. Everything I am talking about—this is only

one person's view. One person can only present one study, but at least let me say that this is a study that runs back to my participation in the original Social Security Act of 1935 and everything since. It is not a quickie.

We do not have, we cannot find those who say: Let us really look at how these recessions came about. They say they came about because we had inflation. It is a pleasing thesis, but it is not so. The inflation came after the recessions came about. The inflations were caused by the inefficiencies of the recession.

There was no inflation before the Great Crash except falling farm prices, there was no inflation before the recession of 1957, there was no inflation before the next recession. Most of the recessions did not have inflation before them. That is not how they happened.

I am against inflation. We had an excellent average price record during the Truman administration. But inflation was caused by the recessions, rather than vice versa.

I have a lot of charts that prove that. How did the recessions come about? They came about through imbalances of the economy. Now, there is only one ultimate explanation of these recessions. You get a recession when the people, through their consumer expenditures, and governments, through their outlays, are not buying enough to keep the plants and the people fully employed.

This thesis is as old as the hills, but it is as green as truth. So long as people are buying enough to keep the plants employed and the people employed, there is not recession. The recession occurs when you get so-called "overcapacity." You get overcapacity, not because the American needs are not there, not because you could not use our current plant—I want to see the plant grow by 6 or 8 percent a year—not because Americans have reached the limits of their standard of living. Goodness knows, they all need a better standard of living except a few fortunate ones, like me, who have gotten too much tax reduction, because the tax reduction has been misdirected.

But, as this chart 5 shows, every time you have an upturn, the investment, which I am not inimical to, in increasing plant, grows 3 or 4 times as fast as what I call ultimate demand, represented by what consumers buy and what Government buys.

Now, we call Government buying investment, but it is consumption. When the Government helps to build a school it is consumption of steel just as when I buy a razor blade. The Government does not produce the steel. You have to measure that against the steel production capacity.

I am not arguing for Government outlays as against private consumer spending. I am saying that more of it should be private consumer spending. But, for the purpose of the analysis, all I am saying is that the demand has not been there to keep the economy running at anywhere near full operations.

Now, that is shown on this chart 5—I have analyzed this over the years. When you have an upturn, the investment grows many times faster than the consumption. You get overcapacity. Then they cut-back.

Well, of course, the cutback in investment along with the long enduring inefficiencies in consumption produce a recession.

When you have recession, the investment is very volatile and it goes way down. Then people begin screaming, well, the investment has gone way down, that is what you have to stimulate.

But let's look at it today. It is not going forward fast enough, but we still have 82 percent idle plant, so it still follows that when they sit around the table they are not going to invest more by giving them tax bonanzas when they have 82 percent plant operations and when their own people are saying to them, the outlook for the cars that people are going to buy and the houses that people are going to build and the durables that people are going to buy and everything else they are going to buy does not justify our moving at a much faster rate.

But the striking thing about the last 2 years, despite the inadequate upturn, is that during this upturn period again, although we have not gotten anywhere near the plant capacity, if you look at the last section of that chart from the fourth quarter of 1975 to the fourth quarter of 1977, a period of 2 years, the investment was growing at 7.6 percent per year, the ultimate demand at 7.2 percent, both expressed in real dollars.

And if you look to the bottom half of the chart, you see the supporting factors of this in the ratios between the growth in consumer incomes and purchasing power terms adjusting to the price change and the growth in available income for business investment, also adjusted.

What follows from this? What follows, very simply, is that we are now in the situation where I say, in all sobriety, that with the kind of tax program that the administration has, with the kind of money policy that we have been getting and are going to get which actually has been counteractive to most of the tax stimulus because the terrific increase in interest rates is inimical to business investment and is inflationary per se, taking all of those things in combination, we are headed already into a diminution of economic growth and we are headed, within a year or two, into another downturn.

Now, what is this import for tax policy? This imports for tax policy that it is not enough to drive up to the filling station and say fill her up, and when the attendant says, should I pour the gasoline into the tires and pour the oil into the radiator and pour the air into the gas tank—I was saying to Senator Long, we need to stimulate the economy. I am for tax stimulus, but I am not censuring only this quickie that the administration has. I have been reviewing every tax reduction that we have had since we started out with a big bang in 1964 with the help of some very wonderful propaganda by Walter Heller, and I was before this committee at that time, and I said, you are going to get a little stimulation of the economy for a year or two. If you threw \$20 billion into the streets you would get that, and if the people scrambled for it it would be distributed better in economic vitality and social terms than the way they are distributing it. And I said, within 2 years you are going to have a revival, with a vengeance, of inflation. You are going to have a decline of the economic growth rate, you are going to have an increasing deficit in the Federal budget, all of that springing from the misdirection of the tax cuts—and, of course,

horribly misdirected money policy and other factors—all of it springing from this, and nobody analyzing until this day, where did we go wrong? Where did we go wrong in the tax cuts in 1969 and 1971? I may not have the exact years, there have been so many—and 1974? Every time I turn around there are more of them, and I am not against them, but I want us to look at what they should be.

What I have reviewed here, what I reviewed here—I do not think anybody else has done it in the same detail—two things. The changes in the personal tax income structure and the changes in the division of taxes between the investment consumption and the consumption function.

Let me first state my conclusion. First of all, everybody talks about Federal taxes but do not look at the whole tax structure. Now, I have a chart here which relates to the whole tax structure, and that must be chart 19, I would guess. It is called "Taxes as Percent of Income, U.S., 1968."

Now, why do I not go later than 1968? I do not go later than 1968 because I have had to develop this without staff, without resources. If I went from 1968 to 1977, everybody knows that the situation will be much worse because of the regressive property taxes, the sales taxes, the State and local taxes have soared much faster than other types of taxes. Other types of taxes have mostly been reduced some.

But the reductions in the Federal tax have not been of the progressive nature designed to compensate for the regressive increases in the other taxes.

But looking at it in 1968—and I say it would be very much worse in 1978—when you look at the Federal income tax, you say, my, we have a fine, progressive income tax system. But when you look at total taxes—which, incidentally, includes social security taxes, property taxes, sales taxes, excise taxes, special taxes—and I have studied them in many of the localities and the States—what do you see?

A family with income under \$2,000 as of then was paying a higher percentage in total taxes than anybody up the line. You say, how did they pay it. They paid it because they had to pay the property taxes, whether they rented or owned the home. They had to pay the sales taxes, and if they did not have enough, they took it out of welfare, so the Government was paying it.

And if you look all the way across the structure, you see that particularly hard hit are the people in what we call the middle-income groups. And, when you get up above \$50,000, you pay only a little higher percentage of your income in taxes than at the lower rates, except the very lowest.

I get amazed when Treasury Secretaries and others come and talk to us—and in that sense, Senator Danforth was more right even than he thought. I have in mind the truth, the whole truth, and nothing but the truth. There is no truth—and I am not implying any deliberate misrepresentation—there is no relationship to the analysis of things as they are actually happening and the administration's position that the American people are going to be benefited, either progressively or generally, by the tax proposal they have in mind for this year and what they seem to have in mind for next year.

It goes far beyond the matter of people being pushed up in the tax structure by inflation.

I am not most worried by people being pushed up in the structure by inflation, because a lot of people have been pushed up in income by inflation, and if I could make a careful study of that, I could show that the people in the top ranges, including myself, have benefitted by inflation even though they are pushed into higher tax brackets, and everybody lower down has been hurt, including the people who pay the social security taxes.

But it is absolutely right, absolutely right, that looking at the structure as a whole, it is regressive, it is getting worse, it has been getting worse for many years, and I care about this on social grounds because we are a rich enough Nation to do justice by our people, but I care about it more on economic grounds because, for the analysis reasons I have given, it has aborted every recovery, because as soon as the recovery starts, as I showed on my last chart, the distribution of the tax cuts, particularly the allocation between investment and consumption, helps to increase the imbalances in the economy; and you soon again get oversupply, so-called, or it has not worked down at all the excess capacity. We have hardly worked down excess capacity, either of plant or manpower.

So, that is how it happens.

Now, I am going into review of the taxes. First of all, let's look at chart 21, the personal tax cuts. That is when we really started on a big scale. We were going to save America, if not make the world safe for democracy, with tax cuts. Did we do it?

So the Secretary of the Treasury then, the Secretary of the Treasury now, they come and they say, look at how progressive it is. Look where the tax cuts are. The smallest percentage tax cuts are those high up in the income structure. The biggest percentage tax cuts are the people low down in the income structure. Look how progressive that is.

Well, the percentage tax cut is just a figure on a piece of paper. It does not mean anything to anybody. What means something to the economy and what means something to the people is how much their income changes in consequence of the tax cuts.

In other words, what matters to me is not if I get an X percent tax cut. The figure that matters to me is the Y, how much more income do I have after I get the tax cut than I had before I got the tax cut.

Now, when you put it out that way and show the 1964 returns, you see that the people lower down, even in the \$50,000 income, they have a 2.7-percent increase in disposable income. I am talking about increases now, in percentage terms.

Sure, the people higher up have to get a bigger tax reduction in dollars because they are higher up, but they do not have to, and they should not, get a bigger reduction in the proportion, a bigger increase in the percentage of their after-tax income.

Now, looking at 1964, which is the harbinger of everything that has come since, those with \$200,000 income got a 16-percent increase in disposable income; the middle fellow, at \$25,000, got 3.8; the fellow at \$15,000 got 2.7.

Now, you will say, there was not room to give the fellow lower down a bigger percent increase. There surely was. There was not room

to give him as many dollars because he had less income, but you could give him more of a percentage increase. You might even ultimately come to the question that if the taxes paid by the fellow way down is so low that you have to find some other way of helping him rather than tax reduction—and there are many other ways. For example, and I will come to this, if we have the right kind of performance of the economy we would begin to see that the people on social security got the kind of benefits that they ought to be having. They account for most of the poverty. They have lagged behind everything. They have lagged behind cost-of-living adjustments plus productivity gains plus the progress of the economy. We say we cannot afford it. This gets back to the condition of the economy and what tax changes do to affect those conditions in the economy.

I have not got time to go into that here, but it is all in my testimony. It is spelled out in detail. It is spelled out how we can balance the Federal budget. And I ought to know, because we in the Truman administration had the biggest problems of any administration between World War II and now, the biggest war, the biggest inflationary inheritance from the war. We had the lowest rate of inflation, we had the lowest rate of unemployment. We had an average Federal balanced budget, and it has not occurred at any time since, and not because conditions were different, but because we did what I am not talking about.

President Truman recognized that the strength of everything comes from the wealth and productivity of the American economy and that the purpose of every imaginable policy is to be tested by that and by some modicum of social justice, because we are rich enough to afford it.

But that is not a real dichotomy. I know that Senator Long recognizes this, and many of the others. If I made a formula for what is the best economics for America, what this country needs more than anything else, I am not for equal distribution of income by any means. I am not a socialist. We need a hell of a lot better distribution than we have now to make the economy work, for the very reasons I have given.

Therefore, the social purpose and the economic purpose are not antitheses, as so many economists say. They are one and the same purpose, and that has been forgotten. That is forgotten by the Secretary of the Treasury and that is forgotten by the administration and that has been forgotten by some prior administrations and that is why we are the way we are now.

My other charts, instead of stopping with 1964, they go through the whole period. For example, if you look at my chart 22, I look at the tax cuts all the way from 1945 to 1963 and again go through the same process, looking first at the percentage tax cuts, second at the percent increases in after-tax income.

Well, when you look at the percent increase in after-tax income which really count; \$200,000, 47-percent increase; \$100,000, 36-percent increase; \$50,000, 26-percent increase; \$25,000, 17-percent increase; \$15,000, 9-percent increase; \$3,000, 5-percent increase.

How can you justify it? How can you justify it on any grounds, economic, social, moral, political, anything?



Now, then, I go along through later years, from 1963 to 1975. For some reason, from 1963 to 1975 we got a little bit better, but we did not begin to redress the gross disparities in the reductions I have traced until 1963. We began to get somewhat better.

But even from the 1963 to 1975, if you look at the effect on disposable income, you will see the highest effect at the top. \$20,000 and above, all the way to over \$50,000, you have a much bigger increase in disposable income on a percentage basis than at any level lower down, and that is superimposed, not as a correction, but let's call it a minor deviation from the huge default all the way from 1945 to 1963, which I just traced.

And all this does not present the picture fully because here again, I must emphasize, this is just the Federal tax structure. If I combined these figures with the trends in the State and local taxes, the property taxes, the sales taxes, the other taxes—in other words, if I constructed a counterpart for the chart I showed you on the imposition of the total tax burden for 1968, if I reconstructed that chart, you would be aghast at the results. And if I carried it further forward to 1978, it would be just that much worse for all of the reasons that I have given you.

Now, we come to the administration's proposals on which the Secretary lingered. I have done that both excluding and including the social security changes.

I have done this in charts 24 and 25. Let's take 25. This includes the social security tax increases.

Now, under those social security income tax increases, here is what the administration calls a very progressive system. I suppose that it looks a little bit progressive, that on the \$25,000 income, which as someone correctly said is not a very big income now, they get an 0.6 percent increase in disposable income and—they get an 0.6 percent loss—and on a \$50,000 income they get an 0.9 percent loss, and on \$100,000 income they get a 1.5 percent loss, but this is a very marginal, very small move in a progressive direction, and if I combined this with what I showed from 1945 to 1963 and 1963 to 1973 and 1973 to 1978, if you put the whole thing together, you would still show that the personal tax changes, even before you get to the effect of the State and local and other taxes which make up the whole tax system, even before that, it has been moving in a wildly regressive direction.

Now, that is bad for the economy for the reasons that I have stated.

Now, let me come to the allocation of the taxes between investment and consumption, which in some way bothers me even more, or twice as much. Before showing these charts, let me say that they are entirely underindicative of the situation because they profoundly mask what a member of this committee—I do not remember who it was that called attention to this. I guess it was Senator Haskell, to where the tax cuts for the investment purpose go in terms of the distribution between huge, medium-sized and large business. An extremely large part of the corporate tax reductions go to those who are very high in the corporate structure. Relatively little goes to those who are in the middle or lower down.

As to that which goes to those at the top, one wonders what they do with it. I will tell you again what they did with it. I will say the same thing I said in 1964. They have not needed it for the purpose of stimulating investment.

I do not like to mention names, but I will just mention a couple, willy-nilly, General Motors, some of the others. They have needed money taken out of a deficit Federal budget at the expense of programs, tax reduction and otherwise, that the people really need to stimulate investment like I need a hole in the head. Their profit figures do not show that they need it. We know that this is not why they are not investing even more. They are investing now at a rate related to the outlook for the economy over the next year or two, and that is why business does not have confidence.

Now, I began worrying about that in 1964 and I had a chart on that that showed 1964, but here I have consolidated the whole period, 1962 to 1965. I have had to make some allocations of the tax concessions normally to consumption, in the higher income brackets to allocate some of that to savings and investment. Obviously, the tax reductions that I have gotten, to use a personal example since 1964, are just incredible. I did not need them, I did not deserve them, but the point I am making now is what did I use them for? They did not increase my standard of living one dollar. I invested them.

The people lower down do not invest anything, they just dissave. So you cannot determine the allocation between investment and consumption simply by looking at the nominal figures offered by the administration. You have to make an allowance for this factor of saving, saving for investment.

Well, when you do that and you go 1962 to 1965, as I show on my chart 26, there was \$8.6 billion going to investment, there was \$10.6 billion going to consumption.

Now, that slight variant, of course, only in my judgment, there is absolutely no relationship to the respective needs of the economy. And that misallocation has repeatedly produced the aberrations and imbalances and repeated recessions and overcapacity that I have referred to.

But the trouble is that later on it gets worse, because as you get later on, if you look at the 1971 tax cuts, which were a monstrosity—and I understand that some members of this committee had some feelings about them—in 1971, permanent effects, chart 27, right side, 7.4 to investment 2.7 to consumption, three times as much to investment and look at what has happened to us since then.

Have we gotten a robust and lusty picture of investment? No. We have gotten what I said since 1964. We say, my goodness, if only we could stop all of this American capital from flowing overseas. It increases our balance-of-payments problem, it increases our problem of trying to have to prohibit the influx of foreign goods at lower costs to the American consumer, but to the disadvantage of American industry and labor. Where does that come from?

That comes because the tax bonanzas have given some of these corporations more money than they can use in America. And then we say we raised the interest rates to keep them at home. They do not go overseas for interest rates. They go overseas for profits. They are not affected by the interest rates anyway because they finance from internal borrowing. It is everybody lower down that is affected by the interest rates.

Let me say parenthetically to this committee, you are the Finance Committee, but until you tackle the problem, in one way or another,

as Members of the Congress, of the kind of prevalent money policy that we have—now, I show on some of my charts that this money policy has transferred more than \$1 trillion from borrowers to lenders in 25 years, which is more than \$40 billion average per year. That \$40 billion transfer is almost entirely—there is no economic advantage in transferring income from borrowers to lenders. There is no inflation advantage in tripling the cost of money. It is inflationary per se.

That \$40 billion transfer a year has several times counteracted whatever was done with tax reductions, even if they were done right.

So, that is why I picked up the phrase at the beginning, we have to look at this thing as a rational whole, that matter of the money policy. That is a parenthetical here—well, it is parenthetical, but it is vital.

In 1971, as I say, we really went on a binge of the maldistribution of the product. Now I come finally over to the President's tax proposals and I will go to the last chart. I have already said that the so-called widely heralded progressive nature of the personal tax reductions under the President's proposal are a mere bagatelle, a mere watch in the night, compared to what has been going on for 25 years and especially for the 14 years since 1964.

Now, let's look at the estimated division, proposed cuts between investment purposes and cuts for consumption. Superimposed upon the review that I have made of the earlier years when the thing has been so terribly distorted. Now I have shown it at the top, excluding the proposed tax reforms and I have shown at the bottom, including the proposed tax reforms.

Let's take the midpoint between the top and bottom of our \$15 billion for investment and about \$10 billion or \$11 billion to consumption. It is, in my view, preposterous, absolutely preposterous, and again skewed very heavily—and the Secretary of the Treasury did not answer the question, is this going mostly to the people who need it least. He cannot answer it, because the answer is not there.

Now, what do I come to as conclusions? I am not here to suggest to this committee detailed apportionment of tax reduction. Let me say first that I have grave concern about the constant use of tax reduction as the solution to every problem. Justice Holmes said taxes are the price we pay for civilization, which is true, and the CBO has shown, and I have shown—nobody has shown the opposite—that dollar for dollar, if you put a dollar into well-directed public outlay where you can select the purpose, you get more for your money, you get more employment, you get a lower cost to the Federal budget, you get more activation of the economy, therefore, it is better than the same amount of tax reduction.

That, again, is an aside, just like the money thing, but I think you have to look at the whole.

But I will limit myself to the assumption, for the moment, that the size of the tax reduction under consideration by this committee is correct. And I address myself only to the contours of it.

I say that the contours of it, it should be very much more progressive on the personal side, and I also favor the use of a large part of the corporate tax reduction, and perhaps use of some of the tax deduction in the top brackets on the personal side, to make the personal tax reduction considerably more progressive and to abate portions of the social security tax, or to do both.

I have some dollars here—I think it is about \$10 billion to \$12 billion to play around with, due to lesser personal tax reductions at the top, and much less tax reduction for the corporations, for economic reasons that will be beneficial to all.

There is no boon that could be given to the American corporation equal to the boon of more people with money to buy their products. That is where the trouble is. There is not an automobile company or a chemical company, going across the range, there is not a single one of them that cannot find the money to build more plants when their own experts advise them that they are going to be able to use more plants by selling more products.

They have favored positions at the banks. They are not much hurt by the high interest rates because they finance with internal sources and they finance out of the price structure.

They will build—and I am not saying this to be critical of them—if the people are there to buy. So, there is a \$10 billion to \$12 billion figure there to use—I do not like the term “play around with”—to use based on experience, to correct some of these errors of the past, to do a better progressive job within the personal tax structure, and to shift some of the burden—well, rather, to give some of the benefits to reduction of the increase in the social security tax.

Now, let me say a word, finally, about the matter of the deficit that Senator Long referred to. I am so glad to be before this committee. I notice that Senator Byrd is here. I appeared about 10 times before his father, and if you look at the last hearings, I am very proud of this, I have it framed. When I appeared before him the last time he said, “You know, Mr. Keyserling.”—and Senator Long was there—he said, “I have disagreed with Mr. Keyserling at times, but I have always respected his views and he is one of the best-informed witnesses we have ever had before this committee, and I am always glad to have him here.” I am very proud of that, because we did disagree on some things.

And, Senator Long, we have had a friendship and a working relationship for a long, long time.

So, let me say a word about this business about printing press money. You know, I do not want to be facetious with it, but I go out and make a talk and people say, oh, you are talking about printing press money, and I take a dollar bill out of my pocket and I say, that comes off a printing press, and I take a quarter out of my pocket and I say, that comes off a printing press. All money is printing press money.

The only question is whether the increase in the supply of money is properly related to our capacity to increase the production of goods and services so that we will have the production of goods and services to match the printing press money, if you want to call it that.

If the printing press money grows too big in relation to that, you have classic inflation, which we have not had since World War II. We have had a different kind of inflation, an inflation caused by our laggard and sick economy.

If the printing press money is too small to do that, then we have a classic deflation.

Therefore, getting to the matter of the deficit, the real economics of what the Government does to the economy is what it puts in and what

it takes out. In other words, if the Government, including everything, including the traditional tax structure, including the social security program, which President Johnson decided, for one reason or another, to blend into the Federal budget where it did not use to be there before, looking at the whole picture—and that is the only thing that I look at as an economist, the Government takes in a certain amount every year and the Government puts out a certain amount every year.

If the Government puts out, in total—I am using abstract figures, representing only a tiny fraction of the actuality, if the Government puts out a total every year of 100 and takes in every year a total of 80, the Government is putting out 20 more than it is taking in and that has a \$20 billion stimulatory effect, if it is properly directed. If it is improperly directed, it may be wasted. If it is not needed, it is all wasted.

If the Government puts out 80 and takes in 100 it has a \$20 billion surplus, about which the same thing may be said.

Now, when I look at the whole picture today, I am not worried about the total size of what the Government would be putting in and taking out if the total size of this tax reduction were enacted. I said I was testifying on the assumption of a tax reduction of this magnitude.

I am terribly worried about its composition, because the great, overwhelming question in my mind is, what is going to happen to revenues? That is the key to the thing. The deficit we have now—look, nobody knows better than I how much waste there is in some of the big departments; I have also seen it in big business when I was a private consultant. I would go up there to consult with them alone and they would have 40 people in the room, you know. I have seen it everywhere and it ought to be reduced and there is room for a lot of savings, and all of that.

But the big problem is that we are not getting the revenues because you cannot squeeze the blood of revenues out of the turnip of a starved economy and this Congress can sharpen its pencils on reorganization of boxes and on firing of people—and a lot of them ought to be fired—and do everything else that it can do, so long as everything is not directed toward the use of the tax policy to activate the economy rather than to move it into another recession, you are going to have a \$70 billion deficit and an \$80 billion deficit and a \$90 billion deficit and there is nothing in the world that will stop it.

I will guarantee to the last dollar that if you direct your tax policy and your money policy to bringing the economy back to full resource use within a reasonable period of years, there is no economist who can construct a model for the budget that will not be in balance in the American economy if you are not into another all-out war.

That is the only way to do it, and that is the only way to do it and I am amazed when people who talk about the deficit being the cause of the inflation, like my dear friend Arthur Burns, deliberately having created in the Federal budget a \$25 billion additional charge yearly for higher interest rates which explains \$25 billion of the deficit and saying out of one side of his mouth that those higher interest rates stop inflation and out of the other side of his mouth that the deficit is the cause of the inflation, when about one-third of the deficit is the higher interest rates that he put into the budget.

Now, I am not saying this to criticize him. I am saying this merely to talk about the weird conflict in so much of our national economic policy.

Well, Mr. Chairman and members of the committee, I have been delighted to be with you and I implore that you take a look at this tax reduction package and try to bring it into line, not with argumentation, not with theory, but with one of the few attempts, I believe, to look at what has actually happened and how it has happened and what the results will be.

To quote Justice Holmes again, "A page of history is worth a volume of logic." I do not see any history going into these repeated stabs at doing something. In that sense, the quickie is profoundly wrong. We are doing something. We are going to do something this year. We did something last year. We did something the year before. It all trails off because there is not a look at the whole picture.

Any head of a big corporation that used the kind of logic or the kind of analysis or the kind of policies in his company that he uses when he gets into the Government, he would not last there 36 days.

Thank you very much.

Senator NELSON. Thank you, Mr. Keyserling.

You made reference to the tax cuts over the years for fairly large corporations, investment tax credits and tax cuts, and you made reference to the administration's proposed cuts that the Congress will be considering pretty soon.

My notes indicate that, of the reductions for corporations, those with taxable income of under \$50,000 get 3.5 percent of the dollars in the proposed tax cut. Those over, with a taxable income of over \$10 million get 66 percent; those with a taxable income of over \$1 million get 81 percent.

Would you structure that tax cut—if, in fact, there should be one for corporations—to go more heavily to those under \$1 million?

Mr. KEYSERLING. Let me make a comment upon your statistics and then I will comment on it. I think your statistics are broadly correct; let me show you how they are frequently misused, just as I think the statistics on the so-called progressive nature of the personal tax cuts were misused here this morning by the administration.

It does not mean anything—suppose I said that, since there are so many corporations with small incomes than there are large ones that if you measure it in dollar terms, the small corporations get a bigger percentage of the tax cuts.

That is what the Secretary was saying this morning about the personal tax cuts, that because there were so many people of moderate and lower income, the thing is progressive and they are going to get more dollars. That is not what matters. What matters is what share they are getting relative to their numbers and relative to their place in the structure.

That is why your figures are so relevant, because they show just what counts. They show just what percentage of the benefits go to various parts of the structure and, therefore, who is getting the gravy that is being drained out of this Federal budget deficit.

I think you are entirely correct. I am coming to the matter of restructuring. I think that both in tax policy and in spending policy

and in money policy we have not done what we used to do in the olden days when I think we made a better record. We applied the principle of selectivity.

Now, it is very easy to say it is a little bit harder, but you cannot have a \$500 billion budget without being very, very careful about what you are using it for and merely regurgitating each year what you used it for the previous year with some slight changes in doing that. It is obvious.

Now, this equally true of money policy and of tax policy. I have always favored, when the Government is doling out money in tax reduction—well, it is explicit in what I said about the apportionment between the corporation tax reduction and the individual tax reduction, what I said about the apportionment of the personal tax reduction.

Now, if it is sound, and I am sure it is sound, when you are reducing personal income taxes, or increasing them, you give a great deal of attention to the structure, it is equally sound on the corporate side. And therefore, I think that regardless of what the corporate tax reduction is in dollars, it should be arranged on some selected basis, which I could not suggest in detail without more study, that trained it toward those who need help most.

In other words, I do not think that the variations of the general progressive tax structure related to business size have gone far enough, or have been given enough thought.

So, my answer to your question, in general, would be yes.

Senator NELSON. You stated in your testimony that, in your judgment, some money should be transferred—some tax cut should be allocated to the reduction of social security taxes.

Mr. KEYSERLING. Yes; and the point I was making is, as I said, that since the real economic consequence and the real consequence to the budget is how much you put in and how much you take out, and the real way to look at a deficit is how much more the Government is putting out than it is taking in, however it is labelled, therefore, the real issue up for consideration—and I think one of the Senators put it well—the real issue up for consideration is, given a fixed amount of tax benefit after allowing for the counteracting social security act increases—and, as I say, I am not contesting here the aggregate; I am going along with what is proposed, just to simplify my argument, although I might propose something very different—but, having gotten that far, the only remaining issue is not the size of the deficit, because the deficit looked at the way I look at it will be the same either way; what you call printing press money will be the same either way; the inflow or the outflow would be the same either way, in total.

Therefore, what I would look at is what effect different combinations have upon the vitally important matter of the receipt side of the picture and the stimulation of the economy. And it is from that point of view, not because of a predilection of the social security recipient, I think that any measure that does less on increasing and more on decreasing the taxes of those in the middle and lower parts of the structure, aside from the social security considerations, will be more beneficial to the economy than what decreases the after-tax holdings of

those very much higher up on the income tax structure, whether on the personal side or on the investment side, especially since they do blend in the sense that those high up on the personal side save a large part of their money for investment.

Senator NELSON. One more question. What is the difference, if there, is one, insofar as the inflation question is concerned, in giving a tax cut to a corporation and individual in personal and corporate income taxes versus cutting social security taxes?

Mr. KEYSERLING. I agree with the argument that one of the most inflationary kinds of increases in taxes is an increase in the social security tax. Incidentally, that is another reason why it is so regressive, whether it is increased or not, because it is passed along to the consumer no matter where the imposition comes in the first instance.

I think that is one of the most inflationary kinds of taxes.

But my general answer is broader than that, because I am compellingly convinced of the proposition that the most inflationary thing for the economy is to maintain policies which keep us operating 10 percent to 20 percent, 10 percent on the labor force side, 20 percent on the business side, below our potential. This is the most inflationary thing.

Now, I have been hammering on this for 20 years. I have four or five charts on it here. If you look at them you will see that what was a theory has become a compelling fact. By now, it has become so conclusive that most of the Members of the Congress over on the House side, when they were considering the Humphrey-Hawkins bill, they were all coming down on the side that at least we agree that getting the economy really operating is the central attack on inflation.

There is no other central attack. When the economy is operating the way it is now, your productivity goes down to zero. Everybody wants to write books and make studies about increasing productivity. When the plants are fully used, the productivity goes up 4 or 5 percent, so the per unit costs are tremendously lower.

We have an administered price system where—and I am not saying it critically—they attempt to compensate for profit objectives and higher costs by raising their prices faster when volume is low. I have studied every industry over the years. They all do that. The only people who do not do that are people who operate in a free market and they are mostly farmers.

Doctors do not operate in a free market, and they do it also. That is the way it works.

There is no better cure for the inflation than to get the use of resources more ample.

Senator LONG. I have a high regard for you. I have sought you out as a witness before this committee on occasions because I have asked you to come before us and give us the benefit of your thought, and it has always been very helpful, as I am sure it will be today.

Your chart with regard to people in the lower income brackets and a percentage of the tax cuts that they receive—which one is that? Somewhere, I think, in the early group.

Mr. KEYSERLING. Chart 19 relates to the 1964 tax cuts.

Senator LONG. Let's see if this is the one. Chart 19 would serve the purpose for what I wanted to ask about.



Now, it is true that measured against the income of those people in the low brackets—I am talking about those below \$4,000, particularly if you take under \$2,000—the tax appears to be extremely high, but have you cranked in the welfare payments and the social security payments and the medicaid and the various grants in kind which those people are also receiving?

Mr. KEYSERLING. Insofar as feasible, these income statistics include money income from all sources. They have not completely cranked in the payments in kind, Senator, which is very difficult.

Senator LONG. Some years ago, I was impressed by the same figures, the same type of comparison, but when we looked at how much we were paying those people, particularly in income in kind, such as food stamps and medicaid and various other things, the results are different. While it is true that measured by earned income you would have a shocking presentation of what their taxes appeared to be, on the other hand, if they are paying 50 percent, let's say, as against their earned income, that what they would be getting from Government would be more like 150 percent, measured by the same figure.

We would be paying them out more than three times what they are paying themselves, so that if you look at the mix, you look at what we are paying them, both in cash and in kind, and then add them to what they are paying, they are big winners.

In other words, it would be sort of like me standing there trading you \$1 bills for \$5 bills. I would be willing to trade you \$1 bills for \$5 bills as long as you would be willing to continue that transaction.

Mr. KEYSERLING. Well, Senator, I do not disagree with your figures at all, but I do not think they affect the basic thrust of this chart, for a number of reasons.

In the first place, if you look at the chart, and start out with \$6,000, move up from \$6,000 to \$25,000 which carries you, broadly speaking, out of that class that you are talking about. We still have a tremendously less increase, percentagewise, of disposable income than at \$50,000 and over.

So, even if you exclude the people who are subject to these peculiar circumstances that you referred to, the chart shows very much the same thing.

And as for the people very low down, I would say this. Granted there is a lot in what you say, but I do not think it makes sense for the Government to put too much taxes on the wrong people and, therefore, to pay part of it back in welfare because they cannot pay those taxes without dying.

I think it would be much saner, much politically sounder, and much better in every way to tax them less and not to have to pay them back so much in welfare, which is apart from the question of whether some of the welfare payments are too high, or the immensely more important task of making jobs available to most of those on welfare.

So, anyway you look at it, I think that we should try to get an equitable and a possessive and an economically viable tax system along the lines I have indicated, and that it is not adversely affected by the point that you make.

Senator LONG. Let me just say this, Mr. Keyserling. This is the first time I have heard your thoughts about full employment and full use

of our human resources. I thought they were right, and I still think they are right, and I think they ought to be an essential part of any program that we pursue, be it one that we are initiating here in the Finance Committee, or one that they are moving through some other committee, because I really think that the idea of providing every person with the opportunity to put his resources to work and his talents where they can be used best for the benefit of himself and society should be fundamental to our whole way of doing business.

Mr. KEYSERLING. You are absolutely right and I think further—not really further, because it is inseparably connected—that that should therefore be the major thrust of tax policy and money policy and everything else.

You can get an ideal tax system, an ideal money policy that does not do that and it is a gross failure, by definition.

Senator LONG. If it does all the other things and it fails to do that, I think it is just not a very good policy.

Thank you.

Senator NELSON. Thank you very much, Mr. Keyserling, for your very thoughtful contribution to the hearings today. I appreciate your taking the time to come. Your statements and thoughts will be printed in full in the record.

[The prepared statement of Mr. Keyserling follows.]

#### STATEMENT OF LEON H. KEYSERLING<sup>1</sup>

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to testify, and believe that what I have to say offers some helpful material not available from other sources.

Although we recognize that taxation is for the basic purpose of raising revenue, tax policy in recent years has been directed mainly toward stimulating a laggard economy, which is consistent with the basic purpose, because it is the condition of the economy, as I shall subsequently show, which determines whether the Federal Budget is in surplus or in deficit.

But although tax policy in recent years has been directed toward the right purposes, it has not been based upon an analysis which indicates sufficiently how much tax reduction is needed; and far more importantly still, there has not been anywhere sufficient analysis of the composition of the tax cuts in order for them to achieve the purpose intended. Consequently, the use of tax policy to stimulate the economy during recent years has been disappointing to say the least.

My testimony therefore begins with an analysis of the economic problem, follows this with my views as to what needs to be done to remedy that problem, and ends with the implications of all of this for the use of tax policy at this time.

As my Chart 1 shows, the American economy, especially since 1953 to date, has gone through a roller-coaster performance of stagnation, recession, and inadequate upturns. From 1953 through 1977, the real average annual growth rate was only 3.2 percent, and from 1969 through 1977 only 2.3 percent, while from 4 to 5 percent is required to maintain reasonably full use of our human and other productive resources.

My Chart 2 shows that this roller-coaster performance has caused us to forfeit almost 5.3 trillion dollars of total national production measured in 1977 dollars, this estimate being very conservative as indicated by the footnotes to the chart. Correspondingly, during 1953-1977 inclusive, we have fallen short of reasonably full employment by more than 72 million man-, woman- and teenager-years of useful work opportunity. My Chart 4 supplements this by estimating conservatively how much we would lose from 1977 through 1983, if instead of making drastic new efforts we continue the course of national economic policies and programs along lines not too different from the erroneous paths traveled in the past.

<sup>1</sup> Chairman, Council of Economic Advisers under President Truman, President, Conference on Economic Progress.

The remedies we must seek lie in analyzing correctly why the roller-coaster economic performance has occurred. Contrary to the ideas of many, upturns have not been converted five times since 1953 to stagnation and recession by inflation. Actually, prices were virtually stable before the commencement of the economic deterioration in at least three of the five cycles. Instead, the deterioration commenced in consequence of upturn or boom periods when investment in plant and equipment which add to the ability to produce have grown very much faster than ultimate demand in the form of consumer expenditures plus public outlays. When the downturns have come, investment of course has declined the most, but nonetheless ultimate demand has declined to levels insufficient to restimulate investment sufficiently and to fulfill the function of ultimate demand itself in bringing about complete recovery. Again, from fourth quarter 1975 to fourth quarter 1977, investment in plant and equipment was growing at a rate in real terms almost twice as fast as ultimate demand. This problem is depicted on my Chart 5, which also shows how disparities in various types of income have contributed mightily to the imbalances just described.

My Chart 3 shows the trends in full-time unemployment and in the true level of unemployment from 1953 through December 1977. The striking feature of the top cross section of this chart is its indication, seldom recognized, that unemployment has increased chronically in the long run. For example, unemployment in December 1977, after about 2½ years of recovery, was higher than at the trough of three of the five recessions since 1953. The lower cross sections of this chart show the differential rates of unemployment among different groups, which so greatly aggravate the unemployment problem.

Chart 6 depicts how, by the fourth quarter of 1977, the deficiency in private consumer expenditures was the dominant factor in the total G.N.P. deficiency.

The punch line of Charts 5 and 6 are that efforts to stimulate the economy now should focus predominantly upon the stimulation of consumer spending, plus increases in Federal outlays or reductions in Federal taxation, or more properly a combination of the two. As I shall show, the tax proposals of the President for 1979 are very wide of meeting this essential requirement.

My Chart 7 sets forth my estimate of major goals for 1983, indicating the magnitudes of the task. That I am not inimical to private business investment is shown on the chart by the fact that I project the need for a higher growth rate in that sector than in G.N.P., consumer spending, or Government outlays at all levels. But it is a very serious departure from experience and logic to derive the conclusion that Federal stimulus should concentrate largely upon stimulating business investment directly. Stimulating ultimate demand will do far more toward accelerating the rate of business investment growth, and, later on in my testimony, I will show how erroneous was the following of an opposite course for the past decade and a half or so. That the results were bad is indicated by the extremely poor average performance of the economy over the years which I have already depicted.

One of the objections to as much Federal stimulus as is now needed, whether through increased outlays or tax reductions, or preferably a combination of the two, is that this will increase the Federal deficit and will therefore be inflationary. But my Chart 8 contains estimates that, if we take the steps necessary to bring the economy back to reasonably full resource use by 1983, which means beginning vigorously now, the average annual benefits in terms of total national production will be more than 7 times the size of the difference in average annual costs in the Federal Budget. Moreover, this is the only appropriate road to a balanced Budget.<sup>1</sup>

My Chart 9 indicates that the growing and horrendous deficits in the Federal Budget have been practically entirely due to the poor performance of the U.S. economy, and my Chart 10 estimates how a sufficiently stimulative policy would bring the Budget into balance by around 1983, while continuation of policies such as they have been would leave us with a huge deficit in 1983.

Another objection to an appropriately stimulative policy is that it would be inflationary. But after a quarter century of experience, more and more qualified people are coming to recognize the unquestionable truth that the so-called "trade-off" between unemployment and inflation is for the birds, that inflation is highest when unused resources are high, and lowest when unused resources are low. This

<sup>1</sup> The increased Federal outlays shown on this chart could be replaced by correspondingly more tax reduction, without changing the import of the chart.

is demonstrated on my Charts 11 and 12, and my Chart 13 explains one of the most important reasons for this, in that productivity growth is very rewarding when resource use is high, and very discouraging when resource use is low, which adds to per unit costs and foments price increases.

I do not feel that the stimulus provided by the President's program is adequate, nor that it represents a proper allocation between tax reduction and increased public outlays. I have always believed and still believe that the Finance Committee should give much further consideration to the use of carefully selected public investment in lieu of tax reduction. That preferable course does more for the economy, does more to meet the great priorities of our national needs, creates more jobs per dollar spent, and is therefore less costly in terms of the Federal Budget.

But I shall not develop this point here today, believing that a word to the wise is sufficient. However, I feel bound to point out how many more billions of dollars we would have available for stimulating the economy through Federal action, whether in the form of increased outlays or further tax reduction, if the prevailing monetary policy still in effect had not wrought its ravages on the economy during the past quarter century. My Chart 14 demonstrates the close connection between the excessive tightening of the money supply and the onslaught of recessions and stagnations. This in itself is inflationary, for reasons already stated.

My Chart 15 depicts the fantastic increases in interest rates from 1952 through 1977, which have transferred more than 1.3 trillion dollars from borrowers, both private and public, to lenders. These soaring interest rates have imposed an additional burden upon the Federal Government of more than 130 billion dollars during the quarter century. It does not require a scholar in the field of economics to recognize the transfers of money and spending power in these directions are not only socially iniquitous, but also have intensified the imbalances in the economy which I have already depicted and which have produced the roller-coaster economic performance.

My Chart 16 demonstrates how much more the Federal Budget could have done over the years to help meet the great priorities of our national needs, without worsening the condition of the Federal Budget and indeed benefiting it through efficient rather than inefficient use of funds, if the Federal Budget were not burdened by billions of dollars in excess interest costs, and almost 18 billion dollars of these in 1977 alone. And my Chart 17 depicts the horrible costs imposed upon the average American family by the prevalent monetary policy.

I do not want to seem pessimistic, but I doubt again as, I have doubted before with subsequent vindication, whether tax reductions and other measures to stimulate the economy will be of more than slight consequences unless the Congress exerts itself vigorously to change the policies of the Federal Reserve Board. I respectfully submit that this is a responsibility of every Member of the Congress, and certainly the Members as influential as those on the Senate Finance Committee.

I shall now turn, drawing my conclusions from the fundamental analysis I have already offered, to an evaluation of the tax reduction program proposed by the President which is now the subject of these hearings. As I have already stated, my judgment is that the stimulative program proposed by the President is much too small, and that the balance between the tax reductions proposed and the increases in Federal Budget outlays otherwise proposed is unsatisfactory. But I shall not discuss these issues here. I shall here assume that the President's tax proposals are of the right size; but my view is that they are sorely misdirected in their structural composition, both in terms of economic stimulus and in terms of social equity.

My Chart 18 depicts the distribution of income in the U.S., and the trends from 1947 through 1976. It is apparent that the distribution is extraordinarily uneven, while admitting as I do the need for vast differences in income based upon many considerations. Further, the distribution appears to have become more uneven over the years. In 1976, the three lowest income fifths received considerably smaller shares of the total than they did in 1947, and this usually follows when real economic growth has averaged too low and unused resources averaged too high. High unemployment, more than all else, redistributes income regressively.

The unfavorable situation with regard to income distribution operates very adversely upon economic performance through its adverse effects upon consumer spending, in that those lower down on the income ladder spend relatively more

and save relatively less of their income for consumption than those higher up. By the same token, the very uneven distribution tends to promote the periodic investment excesses to which I have referred, in that those higher up in the structure spend a larger portion of their income for investment purposes. Actually, the chart understates the maldistribution, because it depicts before-tax income, while tax trends viewed as a whole have tended to make the distribution worse, as demonstrated by my subsequent discussion of these tax trends.

The U.S. tax system, viewed as a whole, should be utilized to improve the distribution of income for all of the reasons earlier stated. But although the Federal tax system has remained progressive over the years, when account is taken of all forms of taxation at all levels, the distribution of the tax burden is amazingly regressive. This is depicted on my Chart 19. Although I have not been able to bring the chart beyond 1968, the situation has worsened during the more recent years, for we all know that the most regressive types of taxes such as property and sales taxes have increased much faster than changes in Federal taxes have compensated for these increases.

social security tax increases, indicates that, while the impacts as a whole would There were periods when changes in the Federal personal income tax structure were extremely progressive, when one considers that the real effect of tax rates changes is not to be found in the rate of tax change but in the effect upon personal income after taxes. Measured in this correct way, my Chart 20 demonstrates how extremely progressive were the personal tax increases during the World War II era, 1939-45.

But when the time came after World War II to decrease personal income tax rates, the changes became extremely regressive in their effects upon after-tax income. The most notable use of tax reduction to stimulate the economy was in 1964. And as my Chart 21 demonstrates, the personal tax cuts in this year provided larger and larger increases in after-tax income on a percentage basis as those paying the taxes were higher in the income scale. For example, among married couple with two children, those with \$3,000 income received only a 2.0 percent gain in after-tax income, those with \$15,000 income received only 2.7 percent gain, and those with \$200,000 income received a 16 percent gain.

My Chart 22 applies the same type of analysis to the period 1945-1963, and speaks for itself as to the unsatisfactory distribution of after-tax income gains.

Next, my Chart 23 applies the same analysis with respect to personal income tax cuts to the period 1933-1973. Here again, looking at the percentage increases in after-tax income, the income groups with incomes of under \$3,000 to \$50,000 received smaller increases in after-tax incomes than the groups with over \$50,000.

We may now turn to the estimated effects, for the year 1979, of the personal tax cut proposed by the President, first excluding the social security (FICA) tax changes. Looking at the effects upon after-tax income, the proposal appears to be marginally progressive, but to a degree so small that it does not begin to compensate for the regressive trends over the years which I have already depicted, and certainly not progressive enough to meet the economic and social needs of today and tomorrow. This is shown on my Chart 24. And my Chart 25, applying the same analysis to the President's proposals including social security tax increases, indicates that, while the impacts as a whole would be marginally progressive but not nearly enough so, the percent gain in after-tax income would be lower than if the social security tax changes were not applied in the case of married couples with two children at \$10,000 incomes, \$15,000 incomes, and very much lower in the case of families with \$20,000 incomes, \$25,000 incomes, and \$30,000 incomes. In the case of those with \$40,000 incomes, to the contrary, the gain in after-tax incomes would be the same percentage with or without imposition of the increased social security tax.

More important still, in its bearing on balance or imbalance within the economy, there is to be considered the impacts of the distribution of tax reduction between the investment function and the consumer function. As shown by my Chart 26, the allocation of the tax cuts between 1962 and 1965 directed more dollars to the stimulation of consumption than to the direct stimulation of investment, but not nearly enough more in terms of the economic requirements for the establishment of balance. Actual economic developments bear this out.

But this was not as bad as what happened later on. Looking at the 1971 tax cuts as depicted by my Chart 27, 7.4 billion dollars were allocated directly to the stimulation of investment and only 2.7 billion to the stimulation of con-

sumption. And what happened to the economy in the years thereafter, as I have already depicted, was the appearance of the types of imbalances which not too long thereafter resulted in stagnation and then the most severe recession since the Great Depression of the 1930s.

My Chart 28 depicts the allocation between investment and consumption during the period 1962-1973 as a whole. Here again, the allocation was far off the mark of the requirements for economic balance, and by 1974-1975 the results were felt in the deepest economic recession since the Great Depression of the 1930s.

Finally in this phase of my analysis, my Chart 29 depicts for the year 1979 the allocation between investment and consumption under the President's tax proposals, both excluding the proposed tax reforms and including such tax reforms. In both cases, the allocation to investment is actually higher than the allocation to consumption, and including the proposed tax reforms, it comes to 14 billion dollars as against 10.5 billion.

Coming on top of the erroneous trends in earlier years, I am sadly convinced that the main effect of the personal and corporate tax cut proposals of the President might well stimulate the economy for a brief spell, as did the tax cuts of 1964 and at times later on, but in the longer run would increase the severe existing imbalances in the economy and help to bring on another period of stagnation and then recession, possibly deeper than the most recent one.

In accord with my analysis, what do I now deferentially recommend to this Subcommittee? I recommend that the allocation of tax cuts to the investment purpose, averaging about 15 billion dollars for 1979 (as the midpoint between the proposed cuts with and without the tax reforms) should be reduced by about 10-12 billion dollars, leaving tax cuts of only about 3 to 5 billion dollars for the direct stimulation of investment. I further recommend that the direct cuts for investment be redirected on a more selective basis to those who need help most in the business structure, especially small and mid-size business, for it has been the unalterable tendency of the tax stimuli to investment during the years in the past under review to be directed far too largely to those who need help least, and far too little to those who need help most.

In addition to the 10 to 12 billion dollars thus being saved, I recommend, for reasons abundantly clear, that 2 to 4 billion dollars of the 1979 proposed tax cuts allocated to consumption be abandoned insofar as they are applicable to the higher ranges of the income structure.

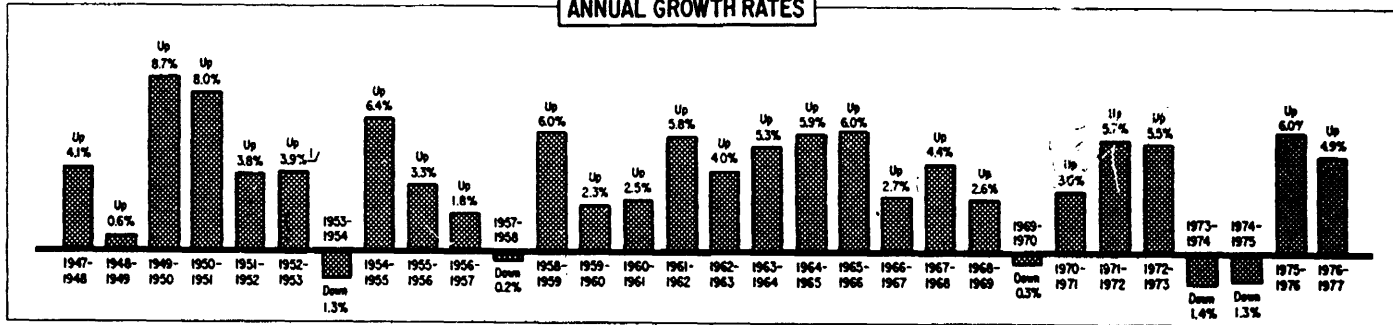
The two proposals just made would yield 12 to 16 billion dollars for other types of tax cuts. I recommend that a very large portion of these, somewhere between 8-11 billion dollars, be utilized to reduce the impact of the proposed increase in the social security taxes over the period of time for which these increases are imposed, and that the balance be used to increase the tax reductions allocated to the consumer function in the lower half of the income structure.

I cannot vouch for the precise accuracy of my estimates or recommendations. But they are close enough to precise accuracy to provide, I believe, a sound guide to this Subcommittee and to the Senate Finance Committee, toward a redirection of tax action, which will avoid the errors of the past and their very adverse economic consequences, and contribute to objectives we all have in common—the sure and peaceful move of the U.S. economy toward full resource use, and the doing of a modicum more of social justice.

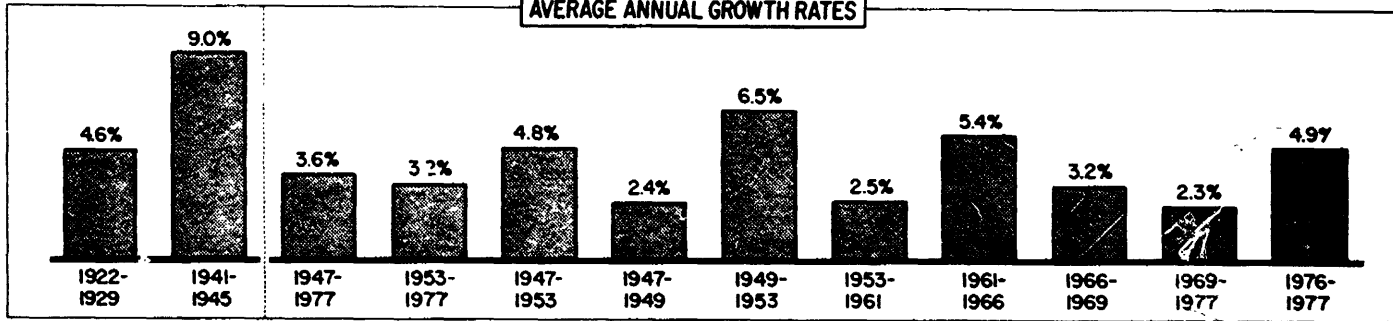
# THE "ROLLER-COASTER" ECONOMIC PERFORMANCE: ECONOMIC GROWTH RATES, 1922-1929, 1941-1945, AND 1947-1977

(Uniform Dollars)

## ANNUAL GROWTH RATES



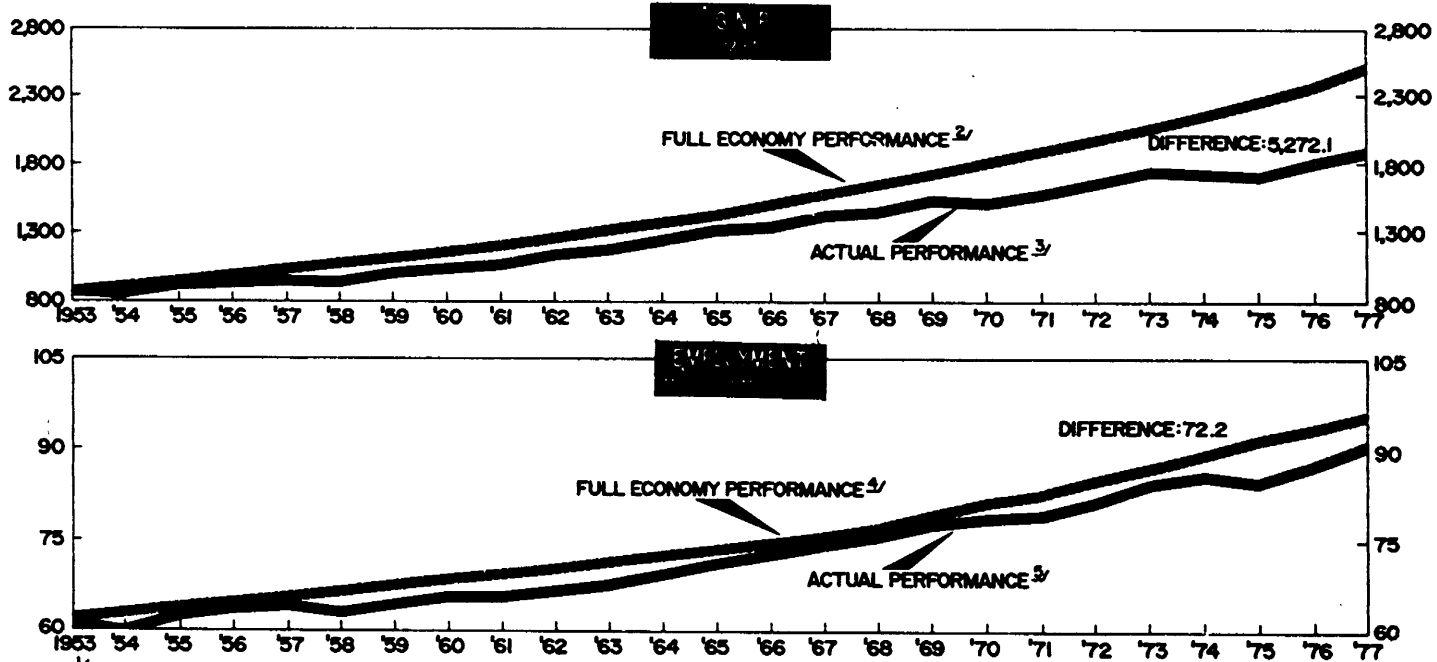
## AVERAGE ANNUAL GROWTH RATES



<sup>1/</sup> Recession during part of period. There were five recessions, 1953-1977, but some were entirely within one year, and began and ended in different years.

CHART 2

# COST OF DEPARTURES FROM FULL ECONOMY, 1953-1977<sup>1/</sup>



<sup>1/</sup> 1977 estimated.

<sup>2/</sup> Real average annual growth rate of 4.4 percent.

<sup>3/</sup> Real average annual growth rate of 3.2 percent, the 1963-1977 average.

<sup>4/</sup> Average true level of unemployment of 4.1 percent, or 2.9 percent full-time unemployment.

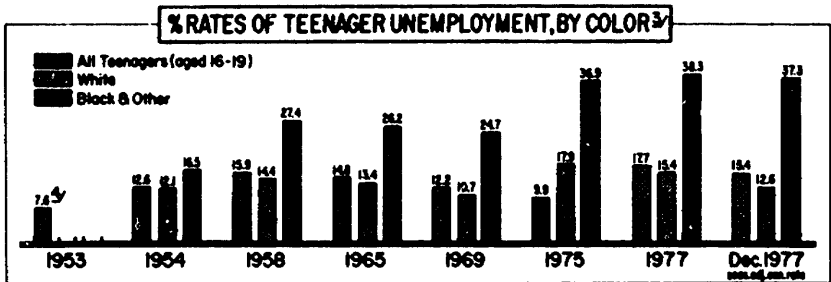
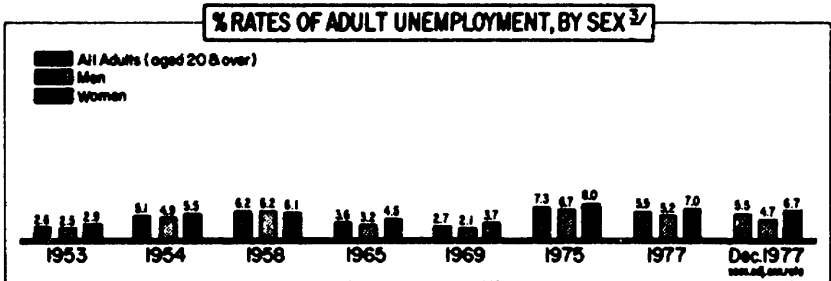
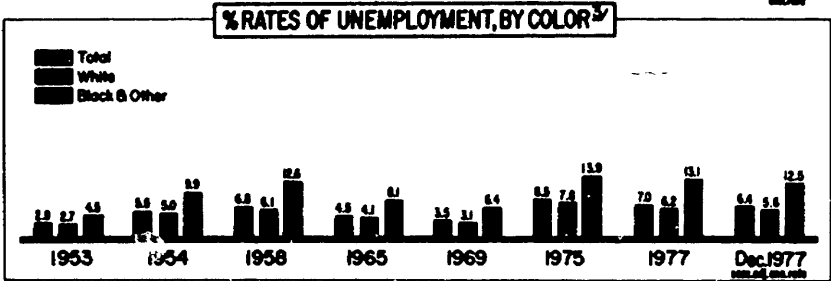
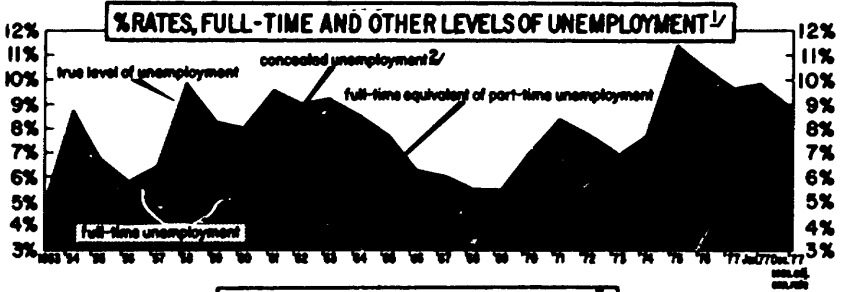
<sup>5/</sup> Average true level of unemployment of 7.7 percent, or 5.3 percent full-time unemployment.

Basic Data: Dept. of Commerce; Dept. of Labor



CHART 3

# UNEMPLOYMENT, % RATES & DISTRIBUTION, 1953-1977



<sup>1/</sup> In deriving these percentages, the officially reported civilian labor force is augmented by concealed unemployment. Thus, some of the rates for full-time unemployment are very slightly lower than in the official reports of full-time unemployment.

<sup>2/</sup> Withdrawals from labor force, due to scarcity of job opportunity.

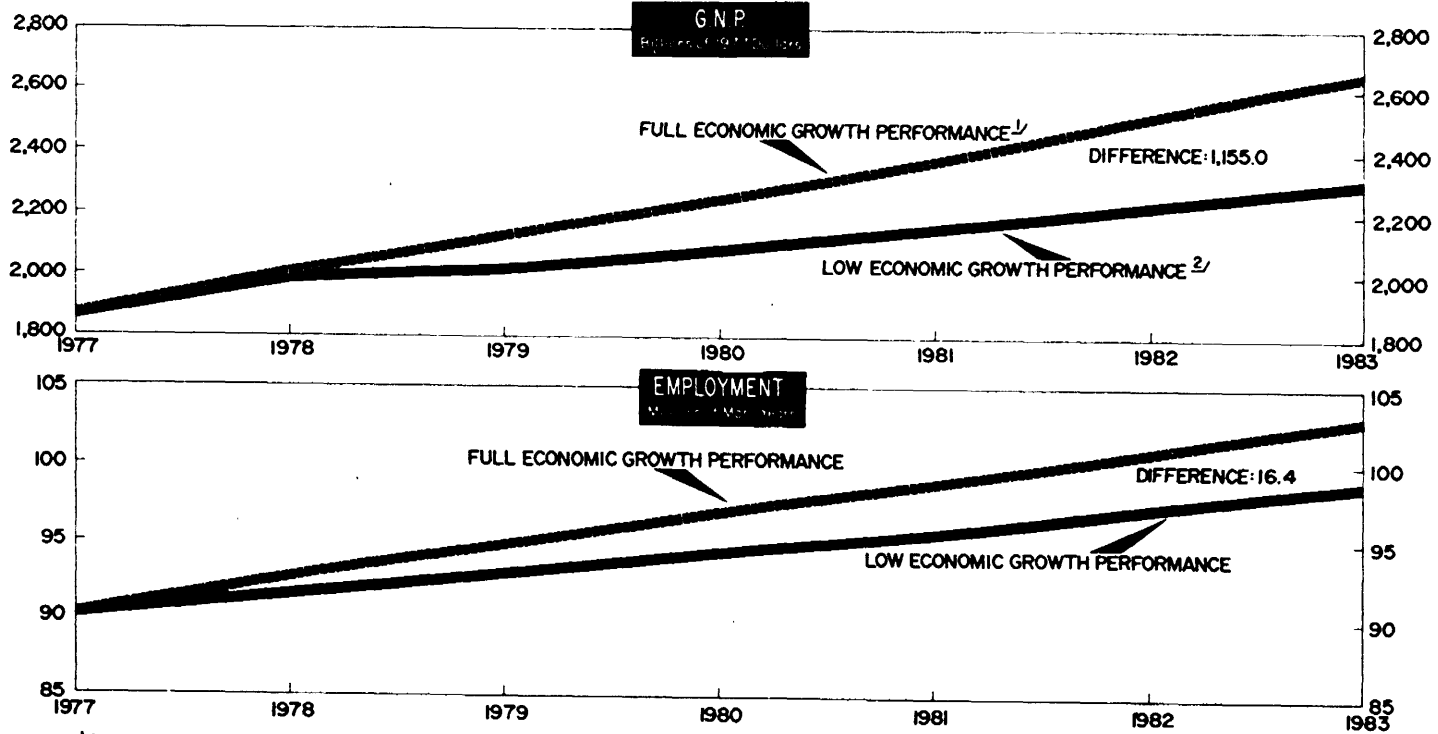
<sup>3/</sup> Officially reported concept of full-time unemployment.

<sup>4/</sup> Distribution by color unavailable.

Note: Some totals affected by rounding.

CHART 4

# BENEFITS OF FULL ECONOMIC GROWTH, 1977-1983



1/ Real growth rate of 6.0%, 1977-78, assuming that some actions compatible with the Humphrey-Hawkins proposal will be taken in 1978. Real average annual growth rate of 5.8%, 1978-1983, if the Humphrey-Hawkins bill is enacted in 1978 and the first Economic Report of the President under the Act is issued in January 1979. These growth rates would be consistent with reducing overall unemployment to 4% by the middle of 1983.

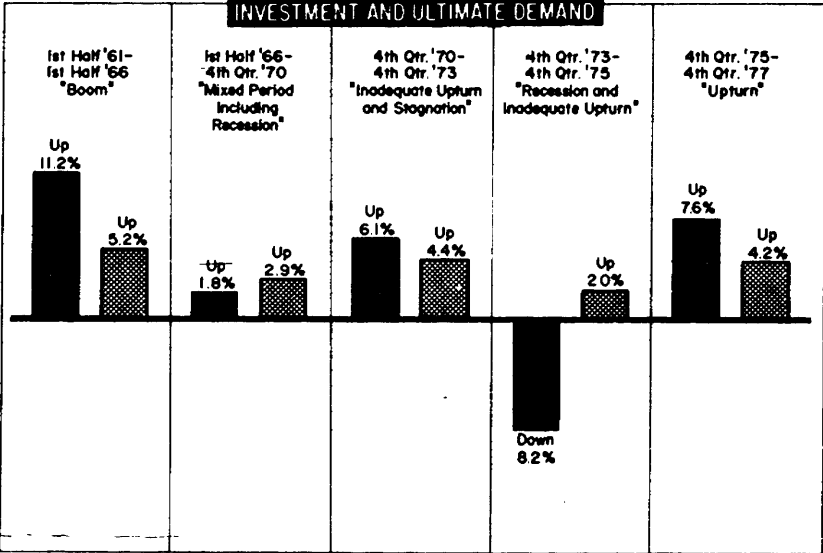
2/ Real average annual growth rate of 3.4%, compared with 2.6%, 1969-1977.

CHART 5

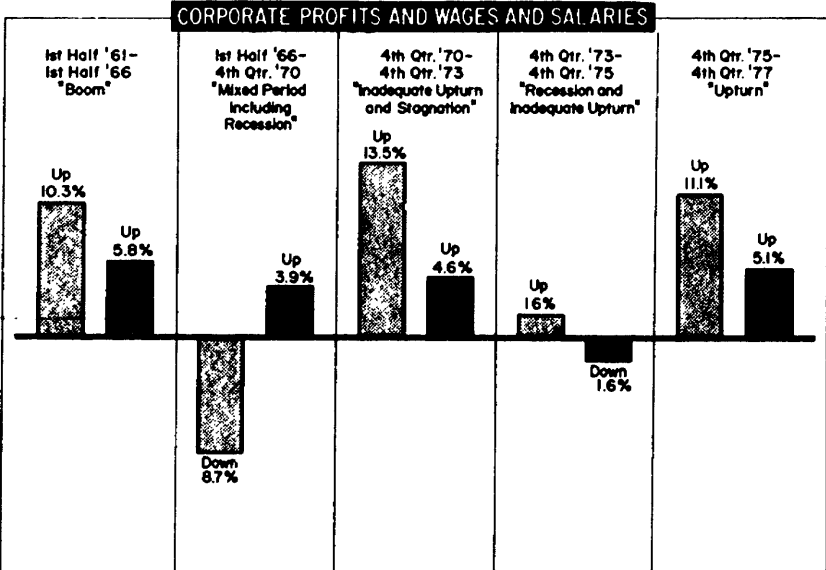
# COMPARATIVE GROWTH RATES, 1961-1977<sup>1/</sup>

(Average Annual Rates of Change, in Uniform Dollars)

Investment in Plant and Equipment  
 Ultimate Demand: Total Private Consumption Expenditures Plus Total Public Outlays For Goods and Services



Corporate Profits (and IVA)  
 Wages and Salaries

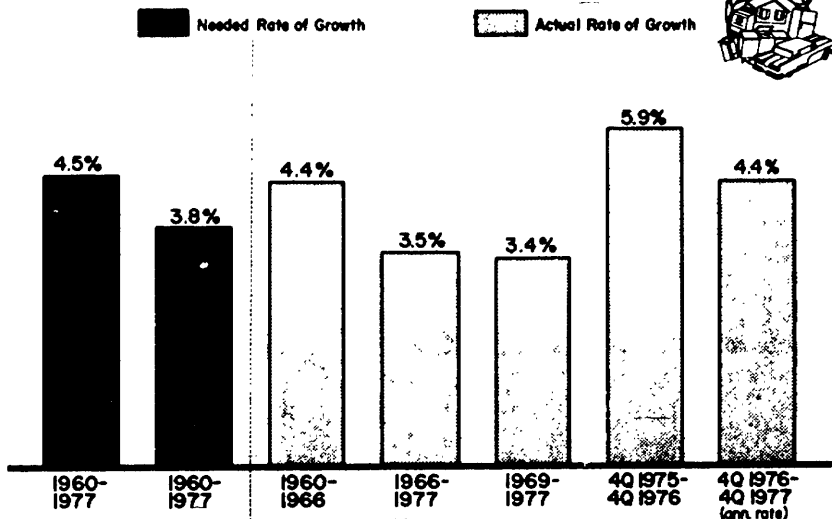


<sup>1/</sup> 1977 estimated  
Basic Data: Dept. of Commerce

CHART 6

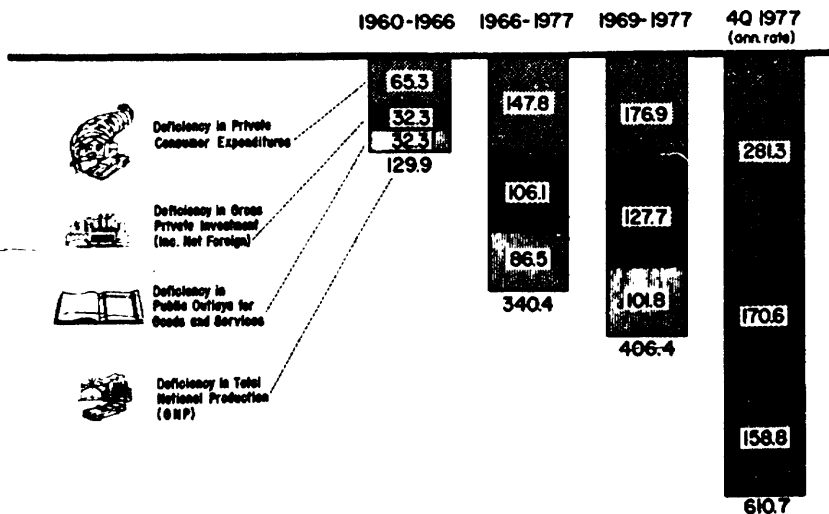
# THE GROWTH IN CONSUMER SPENDING HAS BEEN MUCH TOO SLOW, 1960-1977<sup>1</sup>

(Average Annual Rates of Change, Constant Dollars)



# AND THE LAG IN CONSUMER SPENDING DOMINATES THE TOTAL GAP IN GNP<sup>1</sup>

(Average Annual Deficiency in Billions of 1975 Dollars)



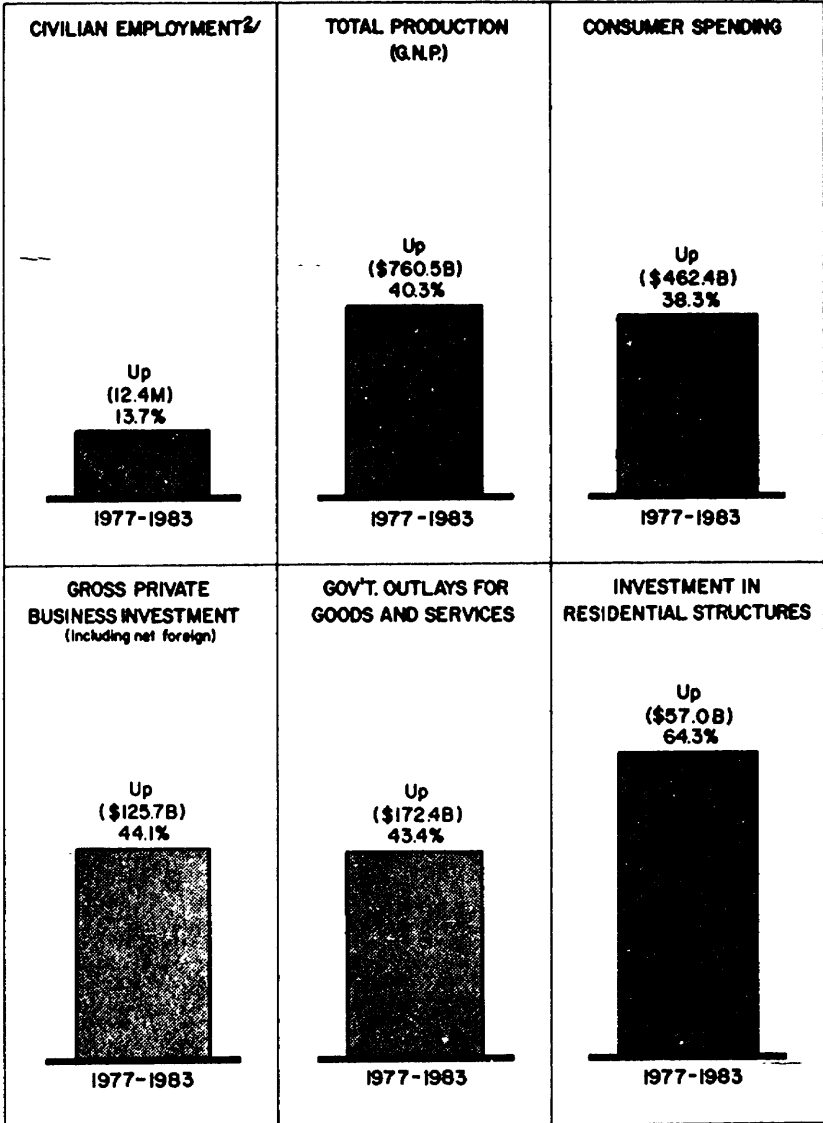
<sup>1</sup>Deficiencies are projected from 1953 base.

Basic Data: Dept. of Commerce, Office of Business Economics

CHART 7

## MAJOR GOALS FOR 1983, CONSISTENT WITH 1983 GOAL FOR REDUCTION OF UNEMPLOYMENT<sup>1/</sup>

Total Percentage Changes  
(Dollar Items in 1977 Dollars, Absolute Data in Parentheses)



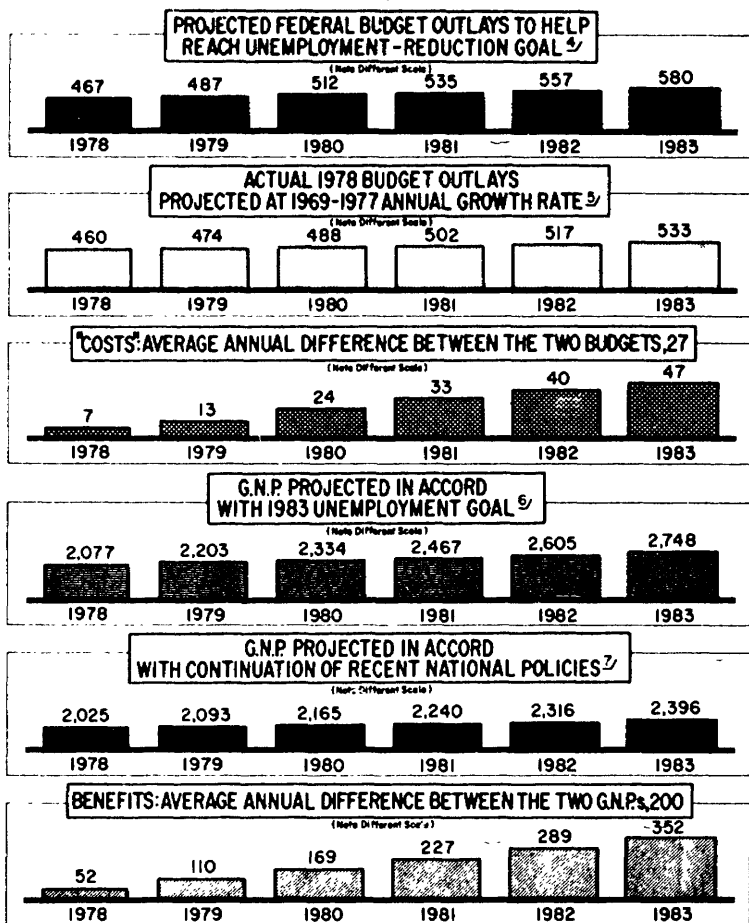
<sup>1/</sup> Assumes some actions compatible with the Humphrey-Hawkins bill will be taken in 1978, that the bill will be enacted in 1978, and that the first Economic Report under it will be issued in January 1979.

<sup>2/</sup> Full-time unemployment down from 7.1% (6.9 million) in 1977 to 4.0% (4.3 million) in 1983.

CHART 8

## "COSTS"<sup>1</sup> & BENEFITS<sup>2</sup> THROUGH 1983, CONSISTENT WITH REACHING UNEMPLOYMENT-REDUCTION GOAL<sup>3</sup> BY 1983

(Budget, fiscal years; G.N.P., calendar years; billions of fiscal 1978 dollars)



<sup>1</sup> Costs are difference between Federal Budget outlays needed to help achieve 1983 unemployment-reduction goal and 1978-1983 Budget outlays projected with reasonably estimated projections of recent policies and programs.

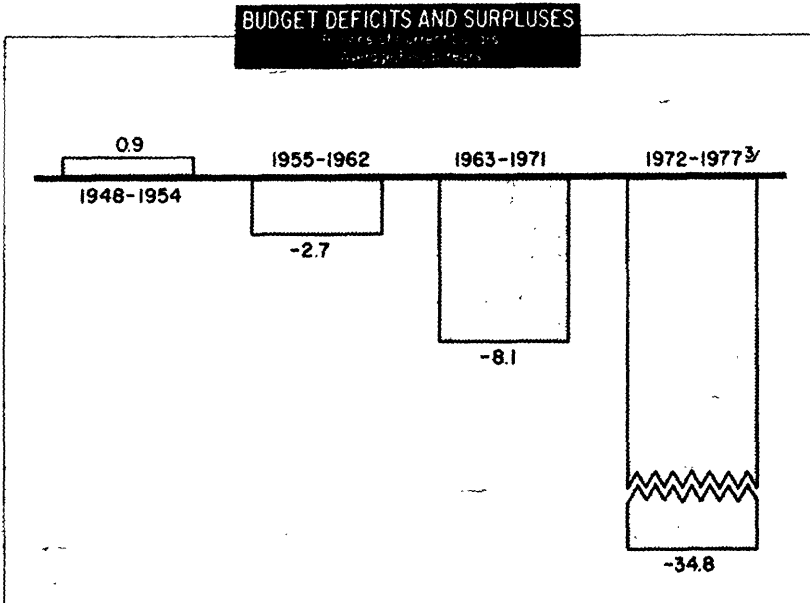
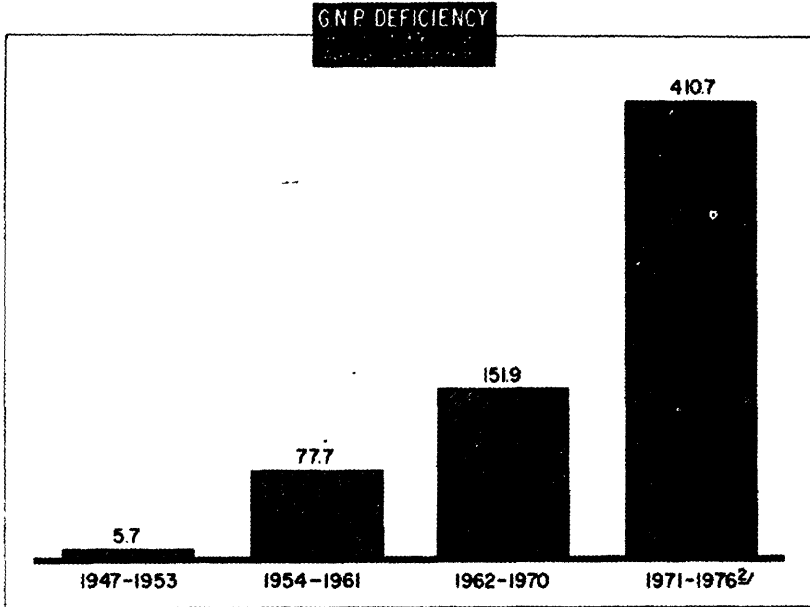
<sup>2</sup> Benefits are difference between G.N.P. in accord with 1983 unemployment-reduction goal and G.N.P. projected in accord with reasonably estimated projections of recent national policies and programs. <sup>3</sup> 4 percent unemployment (3.0% adult) by middle of 1983. <sup>4</sup> The Full Employment & Balanced Growth Program in H.R. 50 & S. 50 would use other policies besides those in the Federal Budget to help achieve the full employment goal. The average annual real growth rate in Budget outlays used for these projections is 4.5 percent, projected from fiscal 1977. <sup>5</sup> The lower Budget projection is of the 3.0 percent real average annual growth rate, consistent with lower projections for G.N.P.

<sup>6</sup> The real average annual growth rate used for these projections is 5.8 percent, projected from calendar 1977 base.

<sup>7</sup> Based upon real average annual growth rate of 3.4 percent, projected from calendar 1977 base. The average was only 3.2 percent during 1953-1977, and only 2.6 percent during 1969-1977.

CHART 9

## G.N.P. DEFICIENCIES<sup>1/</sup> AND BUDGET DEFICITS



<sup>1/</sup> Production deficiencies represent differences between actual production and production at full economy rate of growth. Projections from 1946.

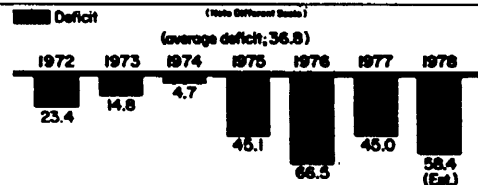
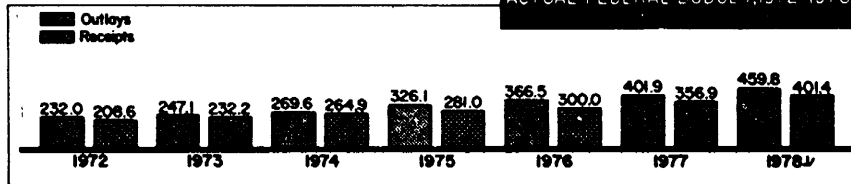
<sup>2/</sup> 1976 estimated.

<sup>3/</sup> 1977 estimated.

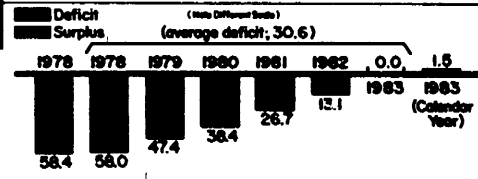
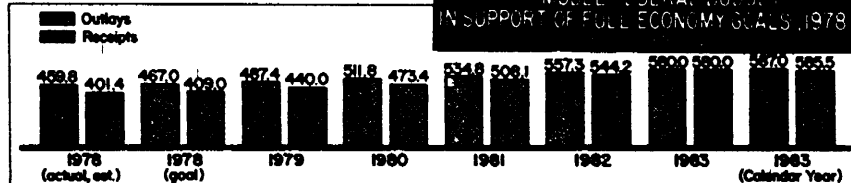
Source: Dept. of Commerce; Office of Management and Budget, for actual figures

# FROM FEDERAL DEFICITS IN AN UNHEALTHY ECONOMY TO A HEALTHY BUDGET IN A HEALTHY ECONOMY

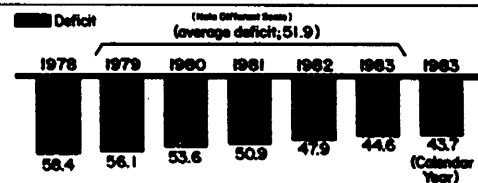
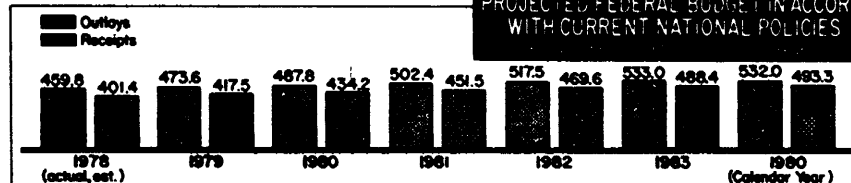
ACTUAL FEDERAL BUDGET, 1972-1978



MODEL FEDERAL BUDGET  
IN SUPPORT OF FULL ECONOMY GOALS, 1978-1983



PROJECTED FEDERAL BUDGET IN ACCORD  
WITH CURRENT NATIONAL POLICIES



<sup>1/</sup> President's Budget, as sent to the Congress in February 1977 and revised in Nov. 11, 1977 OMB release.

<sup>2/</sup> Model Federal Budget depicted in detail on another chart. Goals would be higher in each year's dollars to extent prices rise above fiscal 1978 dollars.

<sup>3/</sup> Full economy goals shown on another chart.

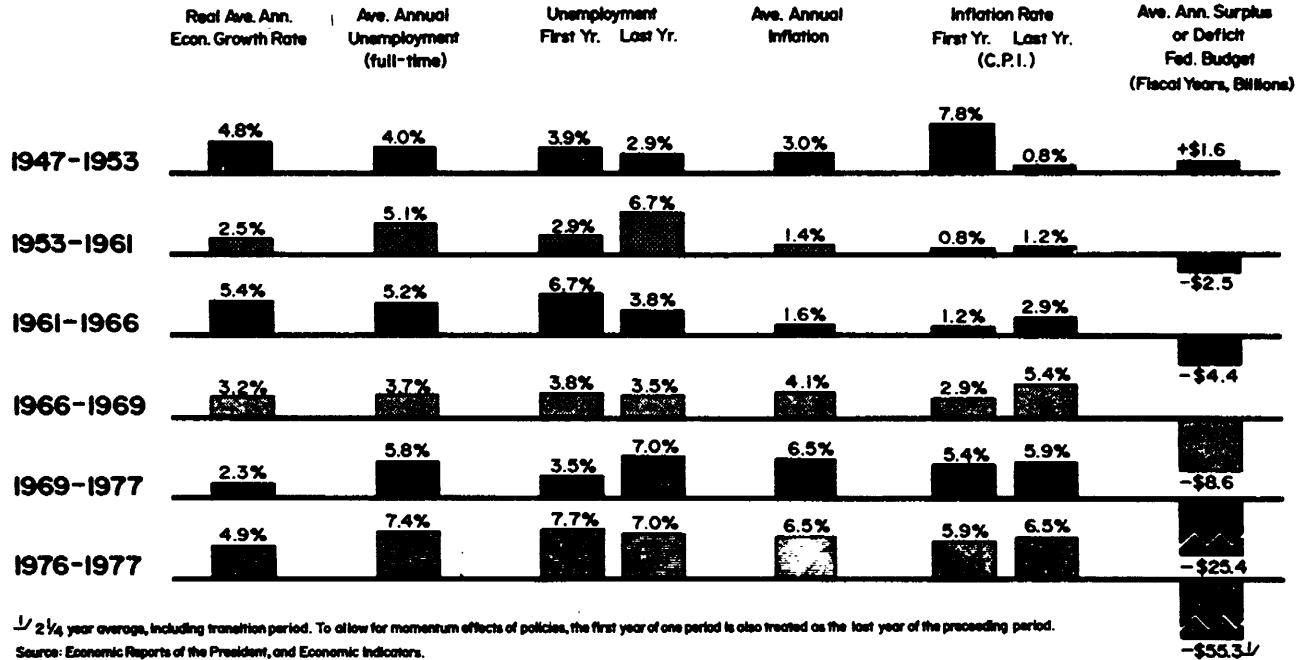
Note: The model Federal Budget projections assume that some action compatible with the Humphrey-Hawkins bill will be taken in calendar 1978, that the bill will be enacted in 1978, and that the first Economic Report of the President under the Act will be issued in January 1979.

Basic Data: Office of Management and Budget for actual Federal Budget



CHART 11

## REAL ECONOMIC GROWTH RATES, EMPLOYMENT & UNEMPLOYMENT, INFLATION, AND FEDERAL BUDGET CONDITIONS, DURING VARIOUS PERIODS, 1947-1977<sup>1/</sup>



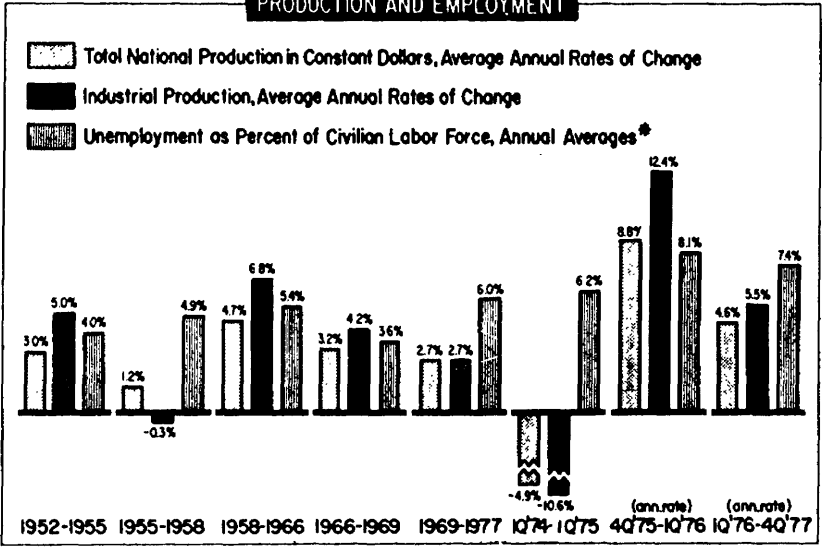
<sup>1/</sup> 2 1/4 year average, including transition period. To allow for momentum effects of policies, the first year of one period is also treated as the last year of the preceding period.

Source: Economic Reports of the President, and Economic Indicators.

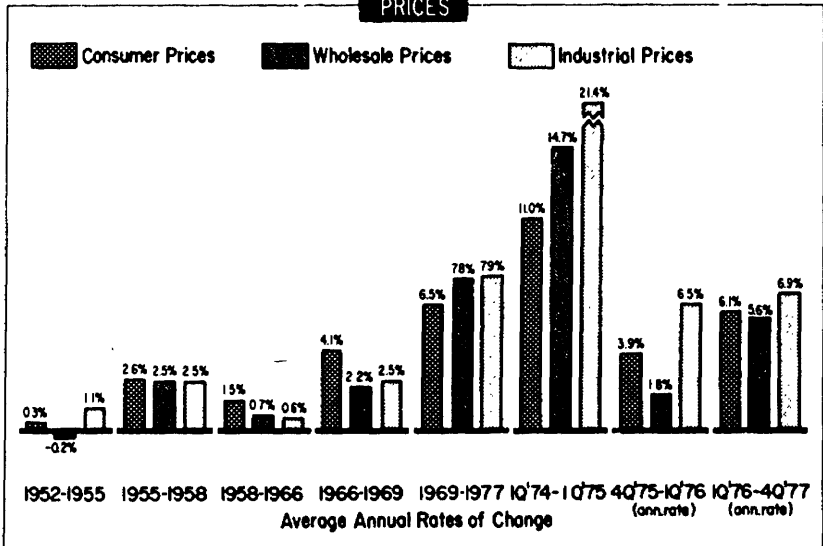
CHART 12

# RELATIVE TRENDS IN ECONOMIC GROWTH UNEMPLOYMENT, & PRICES, 1952-1977

## PRODUCTION AND EMPLOYMENT



## PRICES



\*/ These annual averages (as differentiated from the annual rates of change) are based on full-time officially reported unemployment measured against the officially reported Civilian Labor Force.

CHART 13

## IMPACT OF ECONOMIC GROWTH UPON PRODUCTIVITY GROWTH

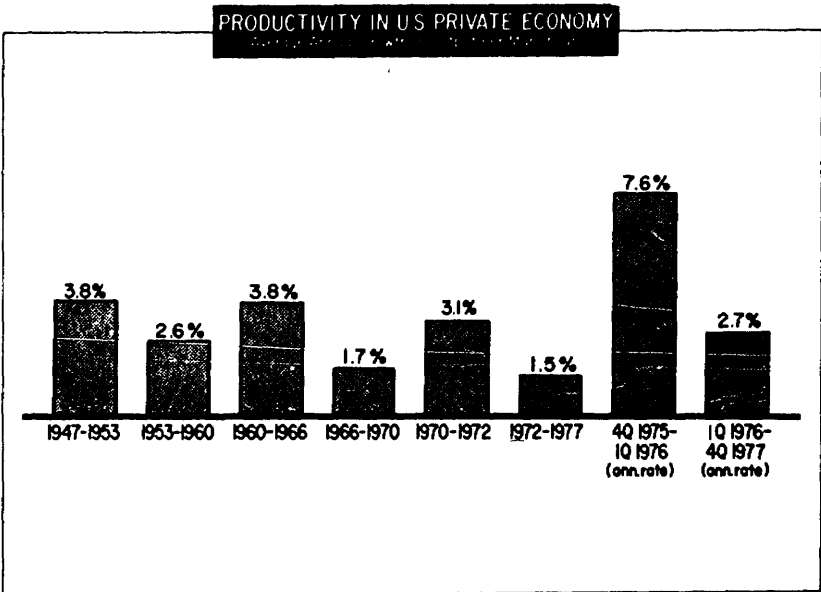
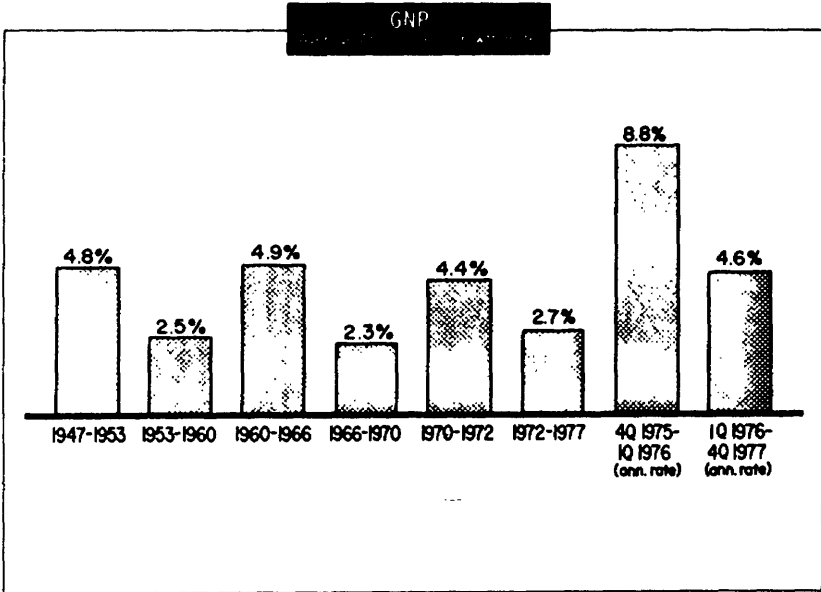
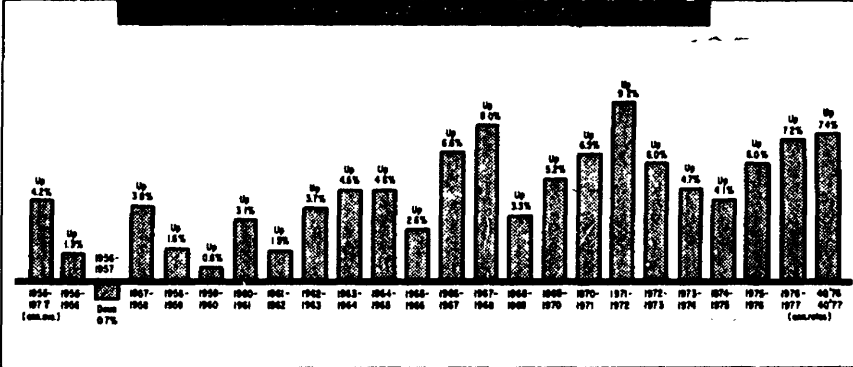


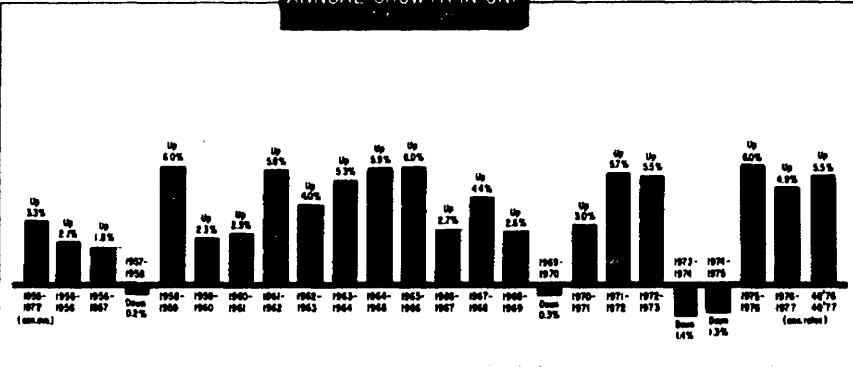
CHART 14

# COMPARATIVE TRENDS IN NON-FEDERALLY HELD MONEY SUPPLY, G.N.P., AND PRICES, 1955-1977

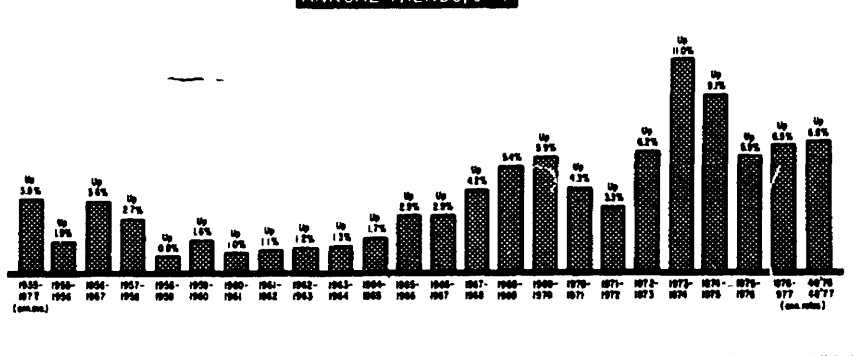
## ANNUAL GROWTH IN NON-FEDERALLY HELD MONEY SUPPLY



## ANNUAL GROWTH IN GNP



## ANNUAL TRENDS, C.P.I.

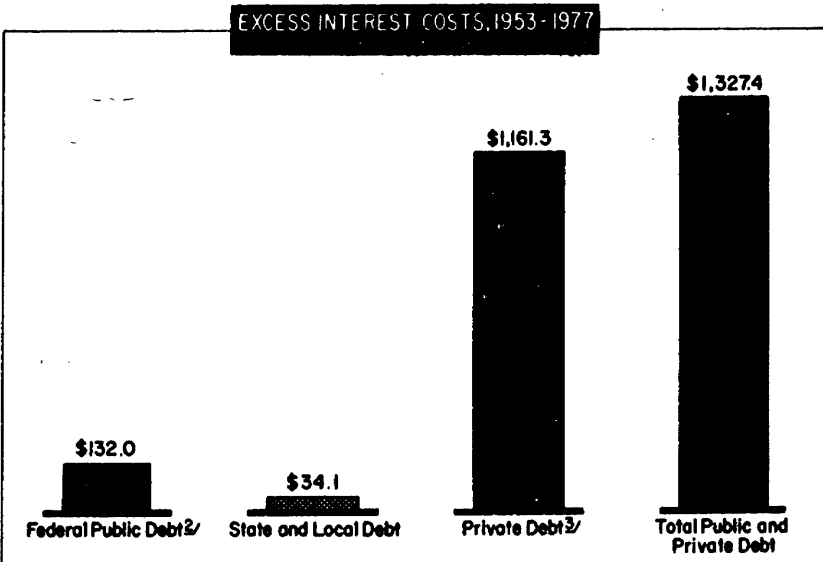
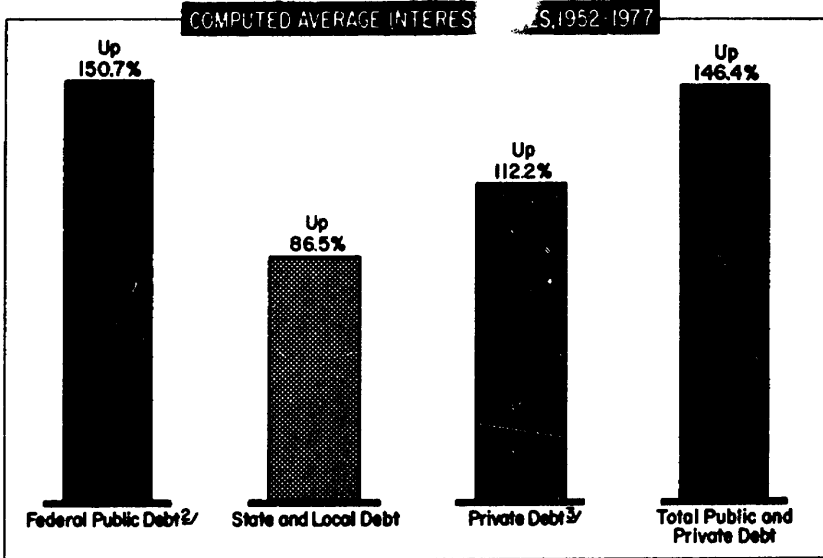


1977 estimated.

Data: Dept of Commerce; Dept of Labor; Federal Reserve System

CHART 15

## INCREASES IN AVERAGE INTEREST RATES, AND EXCESS INTEREST COSTS DUE TO THESE INCREASES, 1952-1977<sup>1/</sup>



<sup>1/</sup> 1976-1977 estimated.

<sup>2/</sup> Includes net foreign interest.

<sup>3/</sup> Computed as a residual by subtracting Federal Government and state and local debt from total public and private debt. Includes debt of federally-sponsored credit agencies.

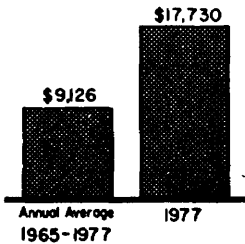
Source: Dept. of Commerce; *Economic Report of the President*

CHART 16

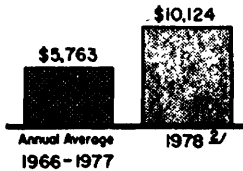
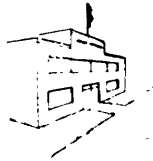
# EXCESS INTEREST COSTS IN THE FEDERAL BUDGET 1965-1977 CONTRASTED WITH OTHER COSTS FOR SELECTED BUDGET PROGRAMS<sup>1/</sup>

Millions of Dollars

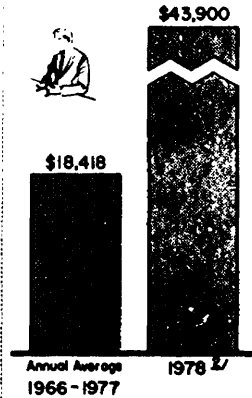
## EXCESS INTEREST COSTS IN THE FEDERAL BUDGET



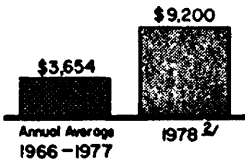
## BUDGET OUTLAYS FOR EDUCATION



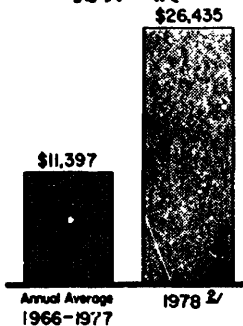
## BUDGET OUTLAYS FOR HEALTH SERVICES AND RESEARCH



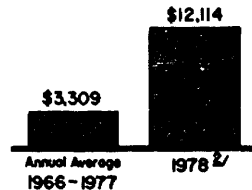
## BUDGET OUTLAYS FOR HOUSING AND COMMUNITY DEVELOPMENT



## BUDGET OUTLAYS FOR PUBLIC ASSISTANCE AND OTHER INCOME SUPPLEMENTS



## BUDGET OUTLAYS FOR MANPOWER PROGRAMS



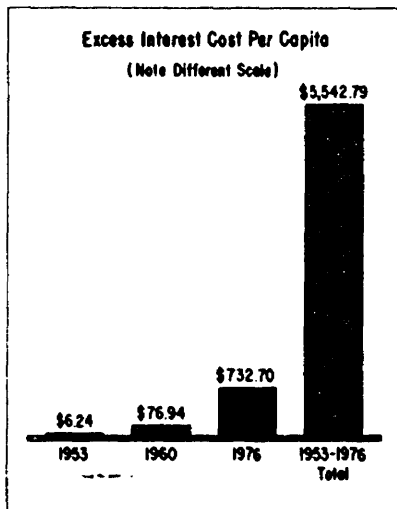
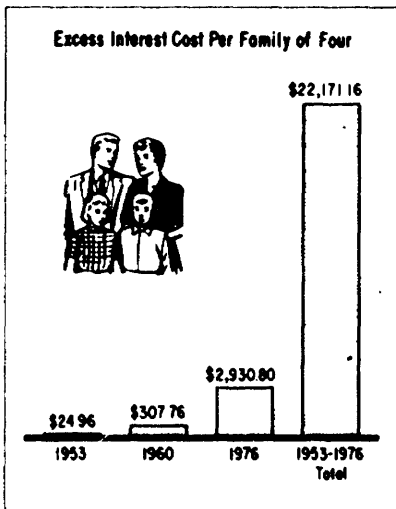
<sup>1/</sup> Interest costs, calendar years, budget outlays, fiscal years. 1977 interest costs and 1978 budget outlays estimated.

<sup>2/</sup> Proposed in fiscal 1978 Budget of President Carter, as revised November 11, 1977.

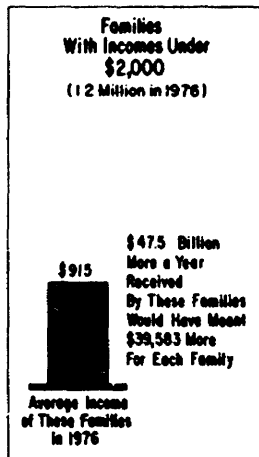
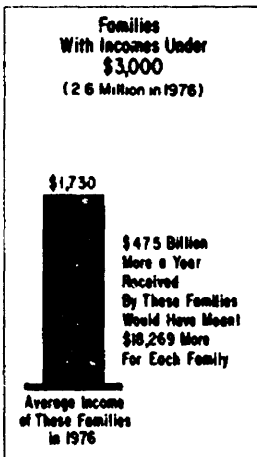
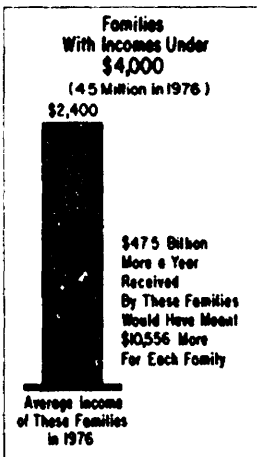
CHART 17

## THE BURDEN OF \$1,138.9 BILLION IN EXCESS INTEREST COSTS, 1953-1976<sup>1</sup> UPON THE AMERICAN PEOPLE

Calendar Years



### HOW \$47.5 BILLION A YEAR, 1953 - 1976 - EQUAL TO ANNUAL EXCESS INTEREST-MIGHT HAVE HELPED LOW-INCOME FAMILIES

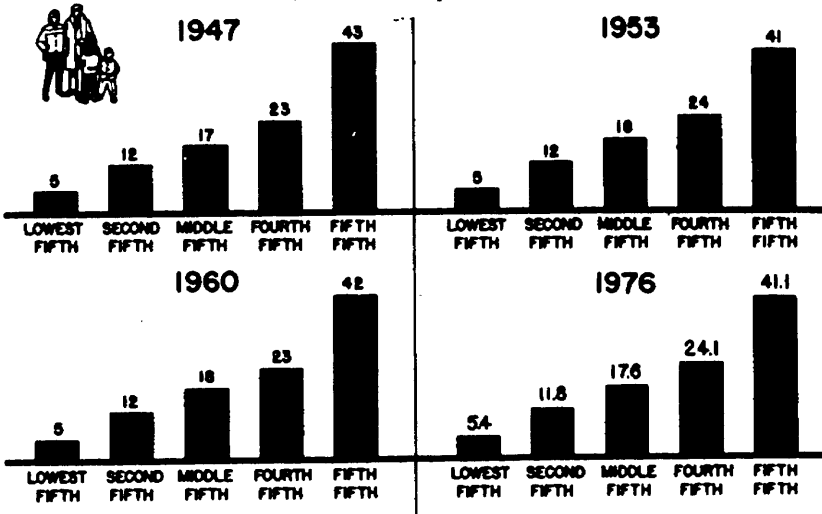


<sup>1</sup> 1976 estimated

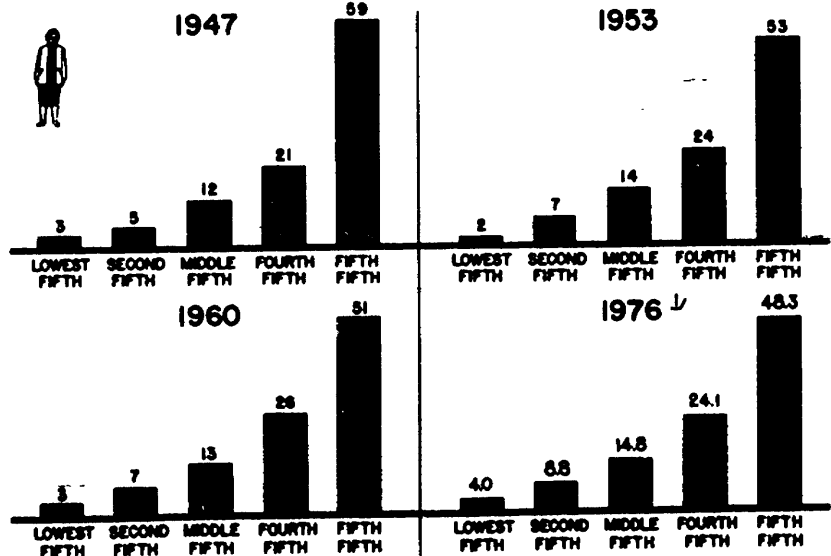
CHART 18

## SHARE OF FAMILIES IN TOTAL FAMILY INCOME BY QUINTILES, 1947, 1953, 1960, and 1976

(Percent of Money Income)



## SHARE OF UNATTACHED INDIVIDUALS IN TOTAL INCOME OF UNATTACHED INDIV., BY QUINTILES, 1947, 1953, 1960, and 1976

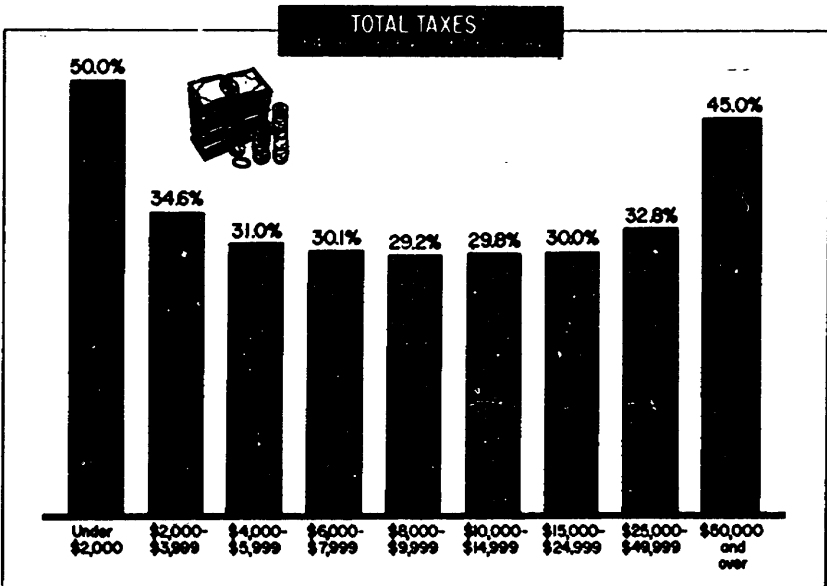
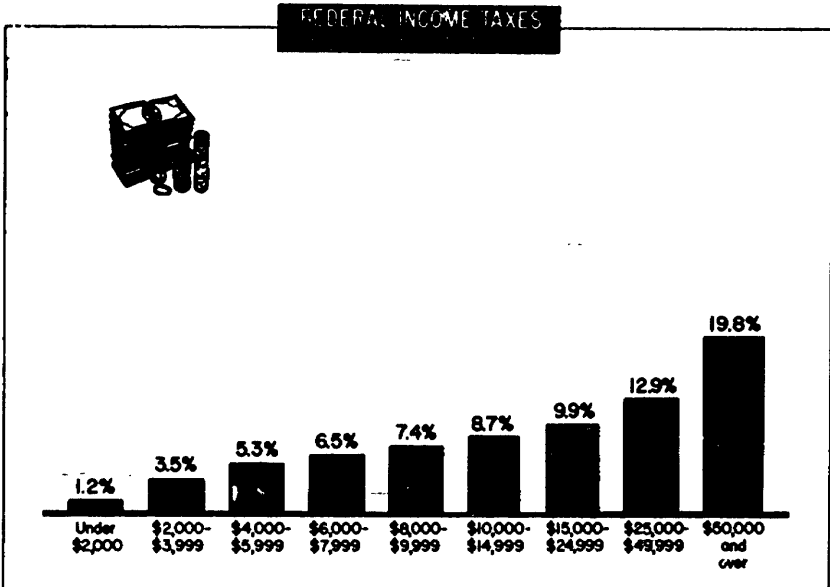


↙ Latest year available.  
 Data: Bureau of the Census.



CHART 19

# TAXES PAID AS PERCENT OF INCOME, U.S. 1968<sup>1</sup>



<sup>1</sup>/Income relates to total income of all persons in the adjusted money income classes shown. Total income is adjusted money income, plus imputed income, less direct taxes, plus retained corporate earnings, plus taxes minus transfer payments, plus realized capital gains.

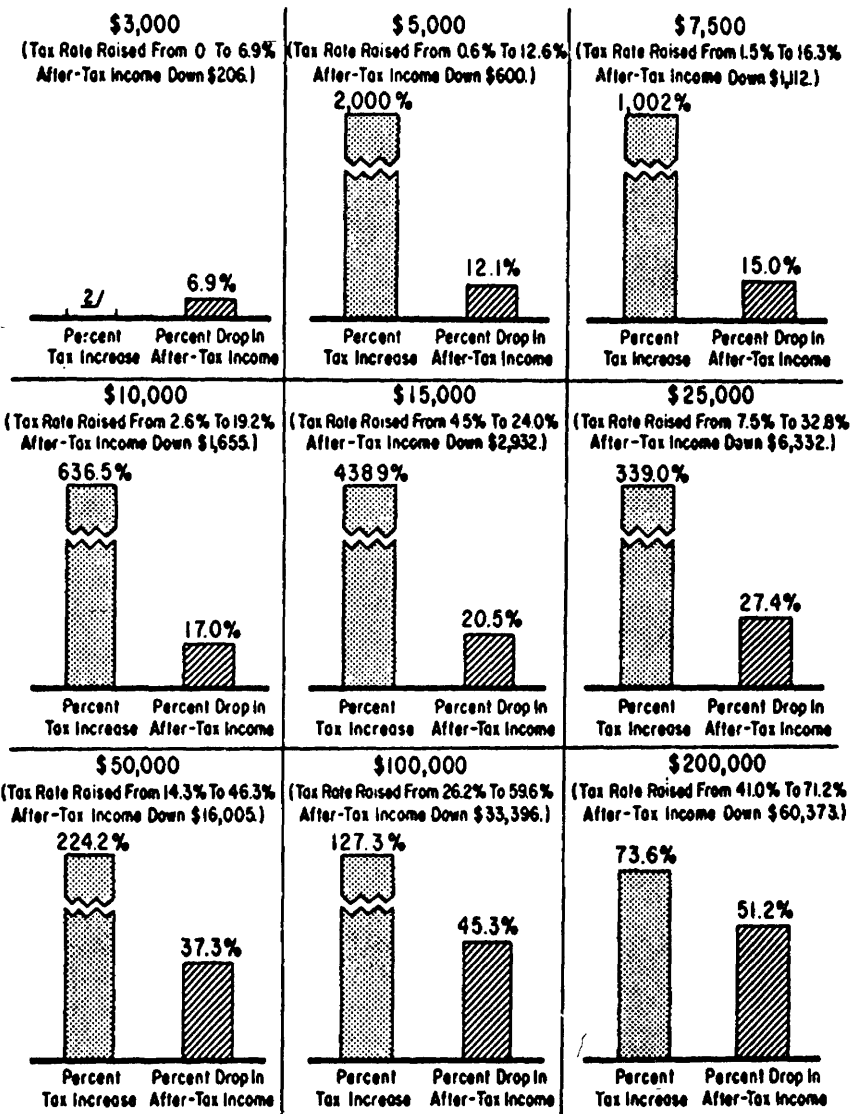
<sup>2</sup>/Includes the following Federal and State and Local taxes: individual income, estate and gift, corporate profits, and social security. Also includes Federal excise and customs taxes, and State and Local sales taxes, motor vehicle licenses, property taxes, and miscellaneous other taxes.

Basic Data: Dept. of Commerce, Bureau of the Census

CHART 20

# PERSONAL TAX INCREASES, 1939-1945

Percent Federal Tax Increase And Percent Decrease In After-Tax Income  
Married Couple With Two Children At Various Income Levels<sup>1/</sup>



<sup>1/</sup> Federal tax for 1939 and 1945, as applied to adjusted gross income, estimated by CEP, assuming 10 percent deduction for taxes, interest, contributions, etc. Allowance was also made for earned income credit in 1939.

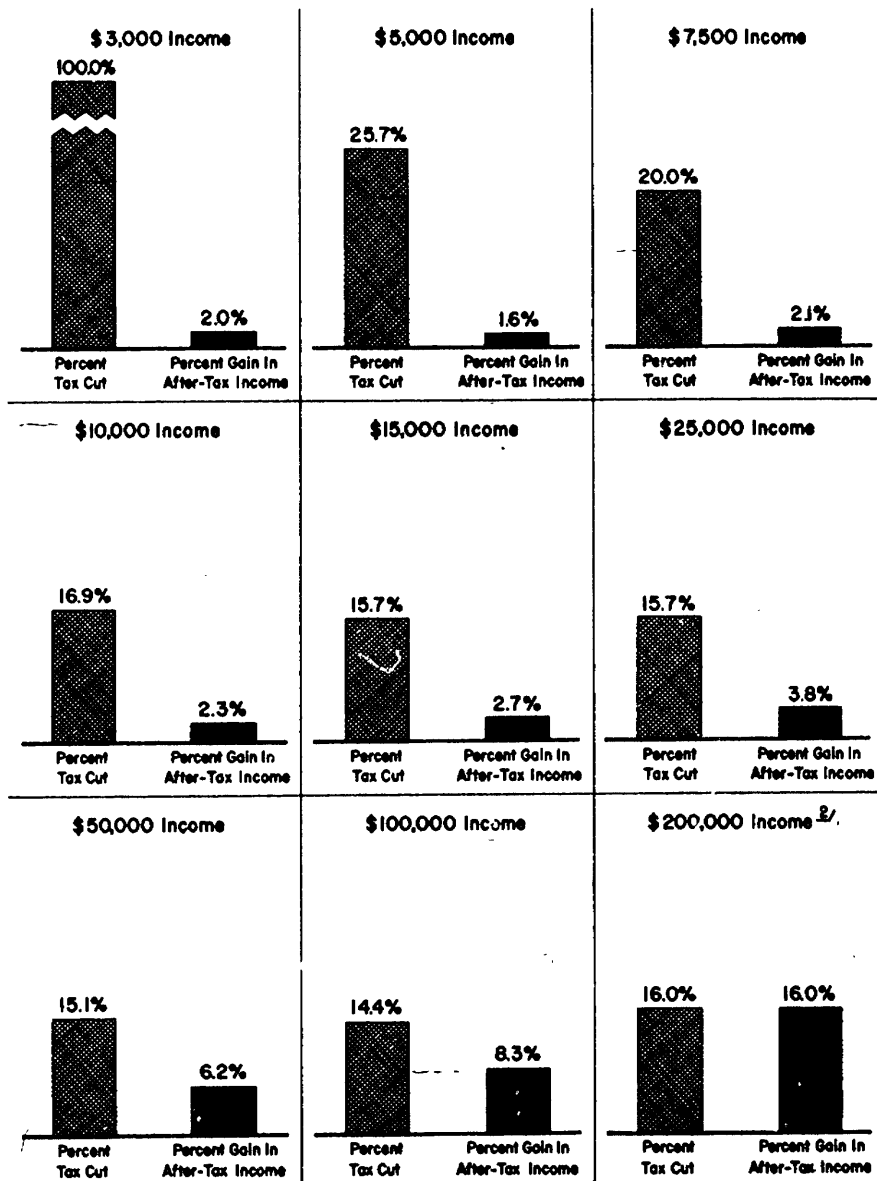
<sup>2/</sup> No tax at this level in 1939.

Note: Tax rates shown are effective tax rates.

CHART 21

## 1964 TAX ACT, PERSONAL TAX CUTS

Percent Tax Cut And Percent Gain In After-Tax Income  
Married Couple With Two Children At Various Income Levels <sup>1/</sup>



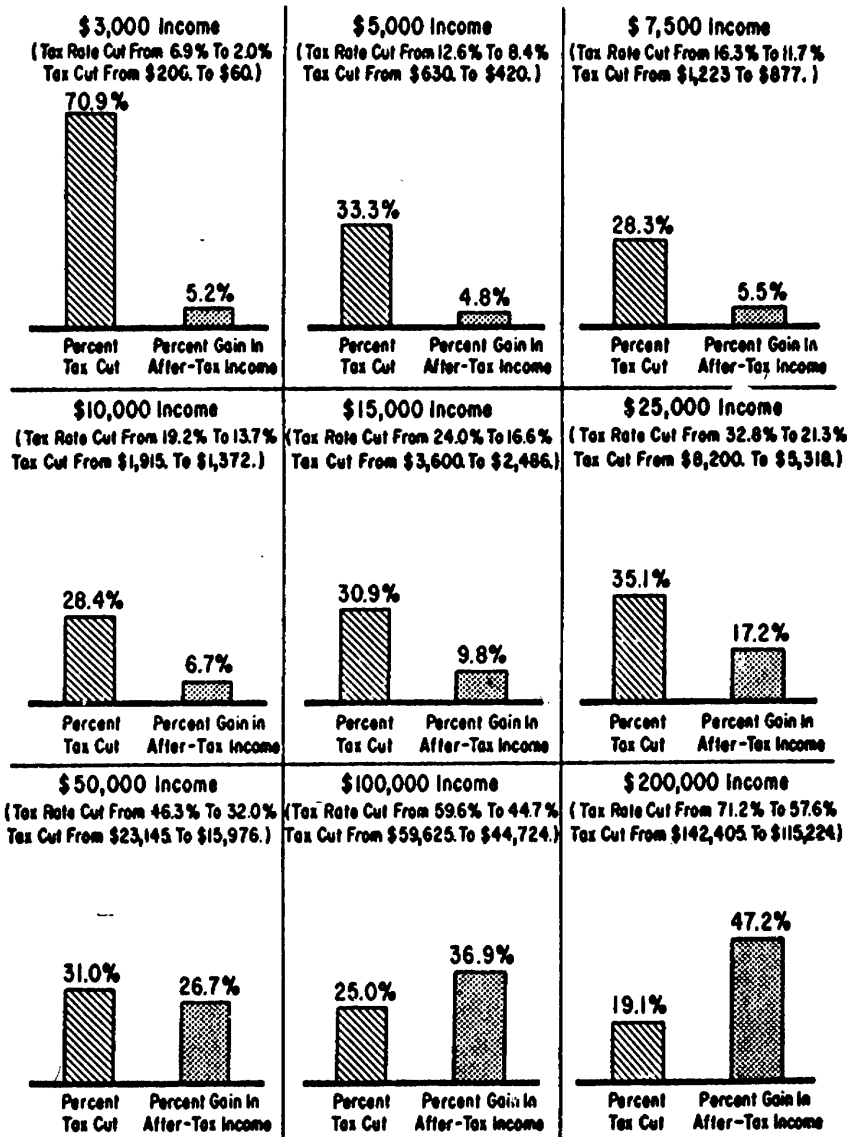
<sup>1/</sup>Adjusted gross income levels. <sup>2/</sup>Estimated

Note: Standard deductions for \$3,000 income level. Typical itemized deductions for other income levels.

CHART 22

## PERSONAL TAX CUTS, 1945-1963:

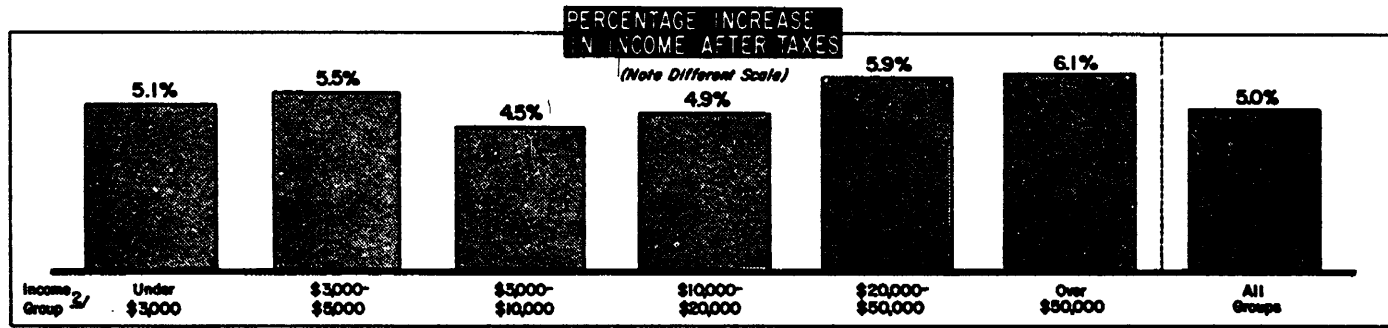
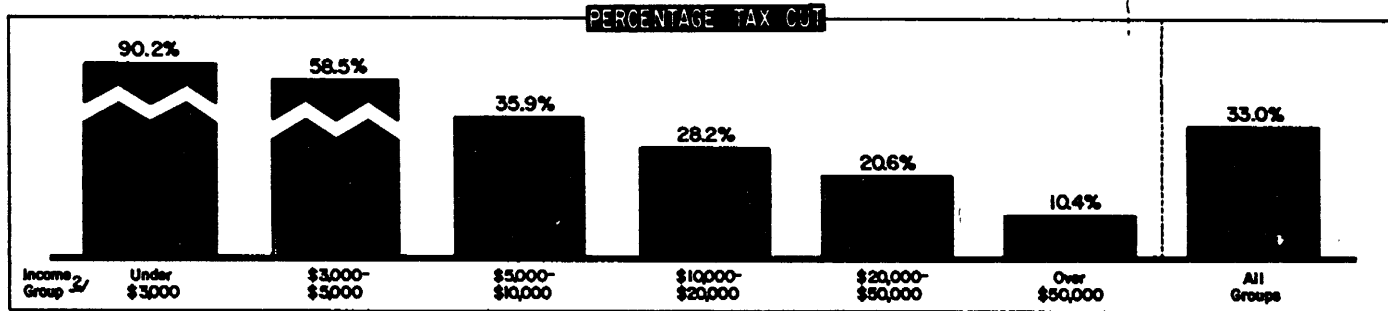
Percent Federal Tax Cut And Percent Gain In After-Tax Income  
Married Couple With Two Children At Various Income Levels<sup>1</sup>



<sup>1</sup> The amount of Federal tax, as applied to adjusted gross income, was estimated for 1945 by CEP and for 1963 by Treasury Dept. Both estimates assume 10 percent deduction for taxes, interest, contributions, medical care, etc.

Note: Tax rates shown are effective tax rates.

## PERCENTAGE TAX CUT AND PERCENTAGE INCREASE IN INCOME AFTER TAX, VARIOUS INCOME GROUPS, 1963-1973<sup>1</sup>



<sup>1</sup> Effects due to changes in personal tax under Revenue Act of 1964, Tax Reform Act of 1969, and Revenue Act of 1971 (H.R. 10947, as reported by the House-Senate Conference Committee, including the effect on personal taxes of removing the first year convention under the Asset Depreciation Range system).

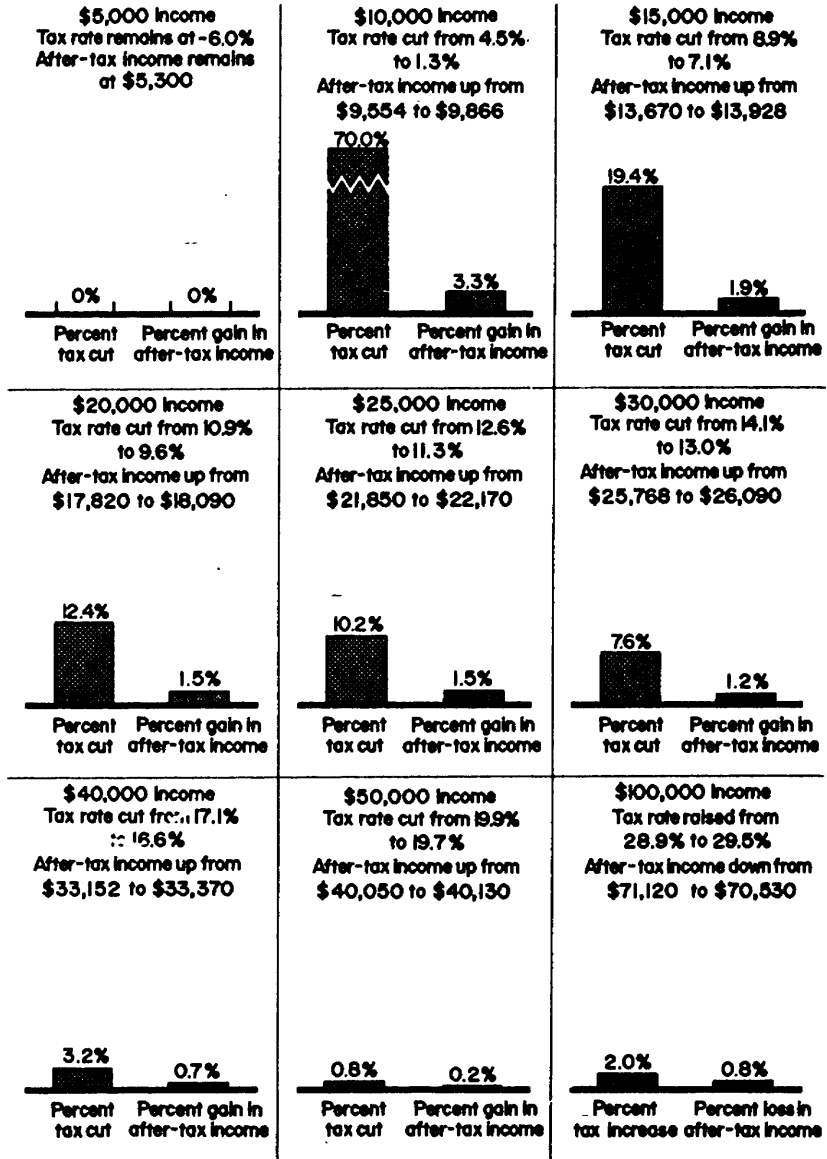
<sup>2</sup> Adjusted gross income class.

Basic Data: House Ways and Means Committee and Senate Finance Committee Reports, and Congressional Record

CHART 24

## ADMINISTRATION PROPOSAL, PERSONAL TAX CUTS IN '79 EXCLUDING SOCIAL SECURITY (FICA) TAX CHANGES

Percent Tax Change and Percent Change in After-Tax Income  
Married Couple with Two Children at Various Wage Income Levels<sup>1/</sup>



<sup>1/</sup> One wage earner; deductible expenses assumed at 20 percent of income.

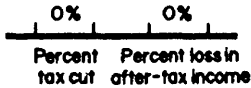
Source: Department of the Treasury, Office of Tax Analysis

CHART 25

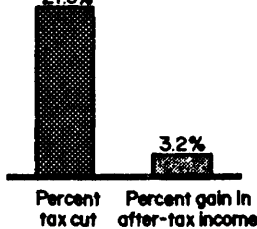
# ADMINISTRATION PROPOSAL, PERSONAL TAX CUTS IN '79, INCLUDING SOCIAL SECURITY (FICA) TAX INCREASES

Percent Tax Change and Percent Change in After-Tax Income  
Married Couple with Two Children at Various Wage Income Levels<sup>1/</sup>

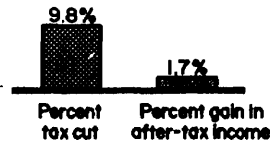
**\$5,000 income**  
Tax rate remains at 0.1%  
After-tax income down from  
\$4,997 to \$4,994



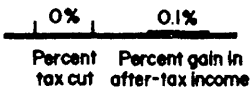
**\$10,000 income**  
Tax rate cut from 10.3%  
to 7.5%  
After-tax income up from  
\$8,969 to \$9,253  
27.5%



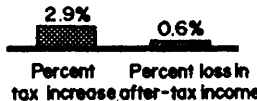
**\$15,000 income**  
Tax rate cut from 14.7%  
to 13.3%  
After-tax income up from  
\$12,793 to \$13,009



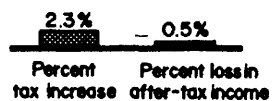
**\$20,000 income**  
Tax rate remains at 15.7%  
After-tax income up from  
\$16,855 to \$16,864



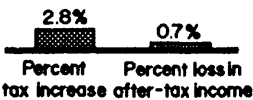
**\$25,000 income**  
Tax rate raised from  
16.5% to 16.9%  
After-tax income down from  
\$20,885 to \$20,766



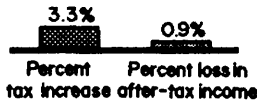
**\$30,000 income**  
Tax rate raised from  
17.3% to 17.7%  
After-tax income down from  
\$24,803 to \$24,686



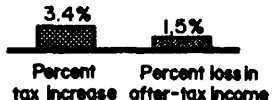
**\$40,000 income**  
Tax rate raised from  
19.5% to 20.1%  
After-tax income down from  
\$32,187 to \$31,966



**\$50,000 income**  
Tax rate raised from  
21.8% to 22.5%  
After-tax income down from  
\$39,085 to \$38,726



**\$100,000 income**  
Tax rate raised from  
29.8% to 30.9%  
After-tax income down from  
\$70,155 to \$69,126



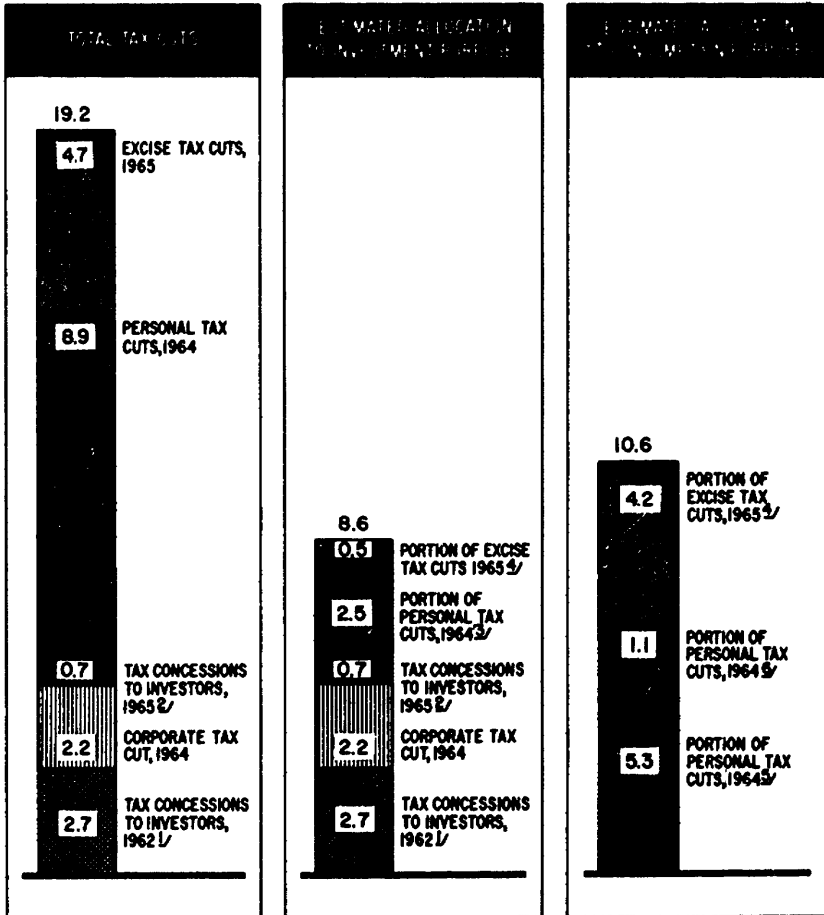
<sup>1/</sup>One wage earner; deductible expenses assumed of 20 percent of income; FICA tax calculated under prior law rate and base for 1977 (5.85% and \$16,500) and present law rate and base for 1979 (6.13% and \$22,900), employees' share only.

Source: Department of the Treasury, Office of Tax Analysis

CHART 26

# ALLOCATION OF TAX CUTS, 1962-1965: INVESTMENT AND CONSUMPTION PURPOSES

(Billions of Dollars)



1/ Through Congressional & Executive Action

2/ Through Executive Action

3/ Estimated portion of personal tax cut, for those with incomes of \$10,000 and over, which they would save for investment purposes.

4/ Based on estimates of excise tax cuts passed on to consumers through price cuts.

5/ Personal tax cuts for those with incomes under \$10,000.

6/ Estimated portion of personal tax cuts for those with incomes of \$10,000 and over, which they would spend for consumption.

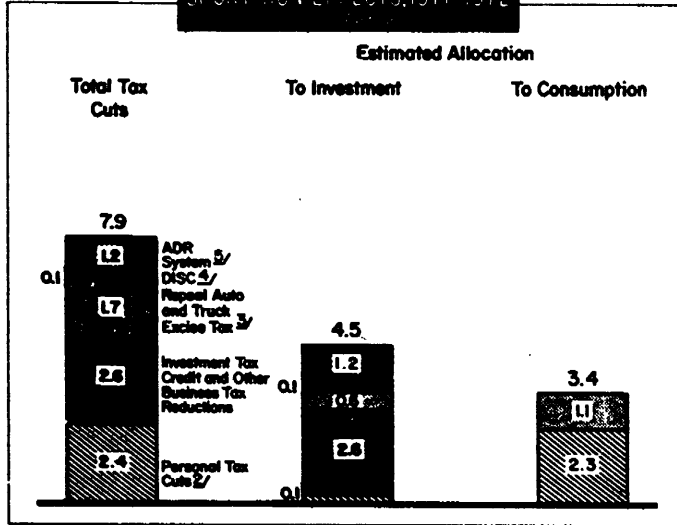
Note: Estimates of excise tax reduction allocation by G.E.P. (amount might be passed on to consumers by price reductions). However, a large portion of this did not go to low income consumers.



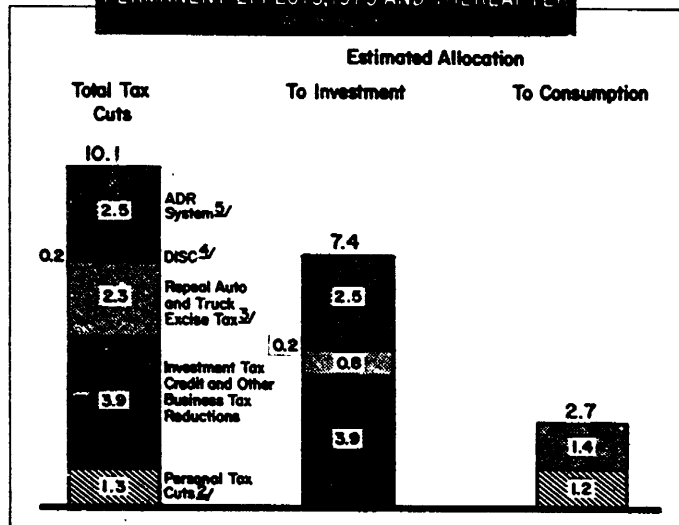
# ALLOCATION OF 1971 TAX CUTS<sup>1/</sup> BETWEEN INVESTMENT AND CONSUMPTION

(Billions of Dollars)

## SHORT-RUN EFFECTS, 1971-1972



## PERMANENT EFFECTS, 1973 AND THEREAFTER



<sup>1/</sup> H.R. 10947, as reported by the House-Senate Conference Committee, and Asset Depreciation Range (ADR) System promulgated by the Treasury Department.

<sup>2/</sup> Allocation to investment based on portion of cuts for those with income over \$15,000, which they would save; remainder allocated to consumption.

<sup>3/</sup> Allocation between investment and consumption based on business or nonbusiness use of vehicles.

<sup>4/</sup> Tax deferral by Domestic International Sales Corporations (DISCs).

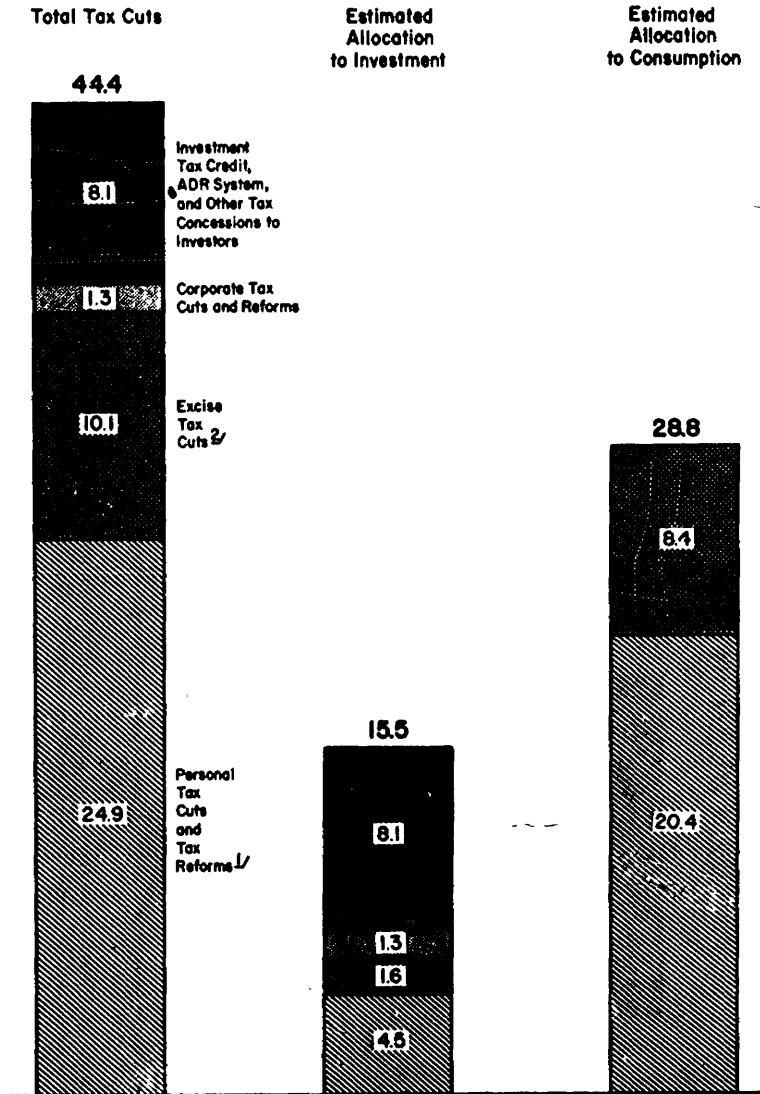
<sup>5/</sup> Treasury regulations as modified by H.R. 10947 as reported by the conference committee.

Note: Components may not add exactly to totals, owing to rounding.

CHART 28

# ALLOCATION OF TAX CUTS, 1962-1973 BETWEEN INVESTMENT AND CONSUMPTION

(Billions of Dollars)



<sup>1/</sup> Allocation to investment based on estimated saving by those with high incomes.

<sup>2/</sup> Allocation to consumption based on amount estimated to be passed on to purchasers of goods for nonbusiness use.

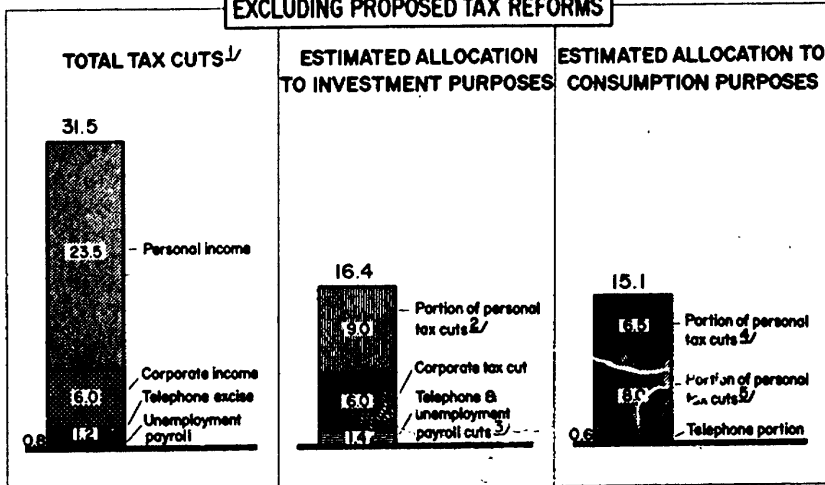
Note: Components may not add to total owing to rounding.

CHART 29

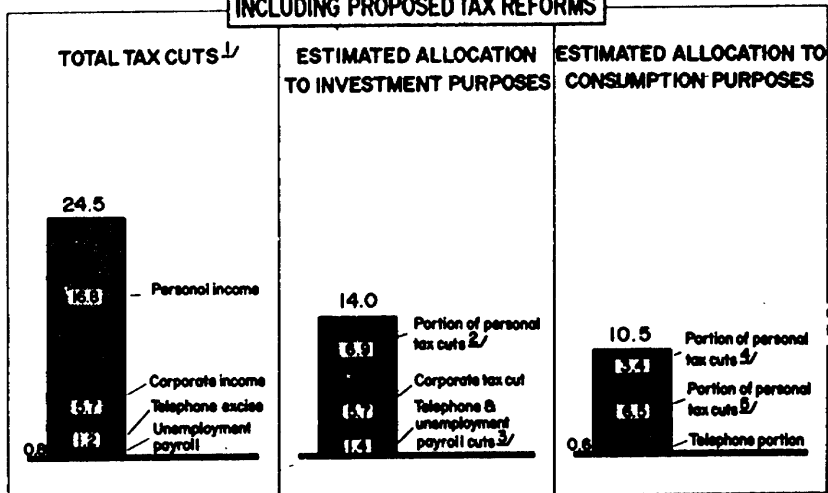
## ESTIMATED DIVISION--PROPOSED TAX CUT BETWEEN CUTS FOR INVESTMENT PURPOSES AND CUTS FOR CONSUMPTION PURPOSES

(Effects on Calendar 1979 Tax Liability)

### EXCLUDING PROPOSED TAX REFORMS



### INCLUDING PROPOSED TAX REFORMS



<sup>1/</sup> Total tax cuts for calendar 1979, as estimated by Department of the Treasury.

<sup>2/</sup> L.H.K. estimate of portion of personal tax cuts for those with incomes of \$15,000 and over.

<sup>3/</sup> L.H.K. estimate of portion of telephone excise cut going for investment.

<sup>4/</sup> L.H.K. estimate of portion of personal tax cuts for those with incomes of \$15,000 and over which would be spent for consumption.

<sup>5/</sup> L.H.K. estimates of personal tax cuts for those with incomes under \$15,000.

Senator NELSON. Our next witness is Alice Rivlin, Director of the Congressional Budget Office.

I regret you were delayed so long in appearing.

If you would, please identify your associates so that the hearing record will be accurate. Your statement will be printed in full in the record, and you may present it however you desire.

Ms. RIVLIN. On my left is June O'Neill, who is the head of our Human Resources Costing Unit and on her left is Bill Beeman who is our Assistant Director for Fiscal Analysis.

Senator NELSON. Thank you.

**STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE; ACCOMPANIED BY JUNE A. O'NEILL, HUMAN RESOURCES COSTING UNIT; AND WILLIAM J. BEEMAN, ASSISTANT DIRECTOR FOR FISCAL ANALYSIS**

Ms. RIVLIN. I know the committee is running short of time, Mr. Chairman.

Senator NELSON. I will be here as long as you wish to take. You have waited to testify.

Ms. RIVLIN. Well, my statement is germane to the issue and it is not terribly long. Let me read part of it and summarize parts of it.

Senator NELSON. All right.

Ms. RIVLIN. The social security amendments enacted in December 1977 accomplished two major tasks. First, the procedure for indexing benefits was "decoupled" so that the formula for determining the benefits of new retirees will no longer overcompensate for inflation. Second, the legislation provided for sufficient revenues to fund expected outlays in both the old age and survivors insurance and the disability insurance programs over the next 40 years. These actions did much to reassure the public that the social security system would continue to be a dependable source of income for retired and disabled persons.

That financial soundness was achieved, however, through increases in the payroll tax rate on both employers and employees and in the covered earnings base. As you know, the increases will be substantial over a period of time.

Since the 1977 amendments were enacted, concerns about the impact of the social security tax increases on both individuals and the economy have grown. One concern is that, in an economy not yet fully recovered from a recession, tax increases could dampen consumer demand and employment. The administration's proposal to cut personal and corporate income taxes by \$25 billion in fiscal year 1979 was prompted, in part, by a perceived need to offset the dampening effects of the social security tax increases on the economy.

Another concern, less easily offset by changes in other taxes, is that payroll tax increases may aggravate inflation at a time when prices are already increasing at far too rapid a rate.

**PROPOSALS FOR CHANGE**

In response to the concerns over rising social security taxes, several Members of Congress have proposed legislation that would reduce

the payroll tax and that could therefore be viewed as partial or full substitutes for the administration's proposed income tax cut. Some of the proposed alternatives would reduce social security taxes considerably—even below the levels in effect before 1977—and would require significant permanent changes in the way social security is financed. Others would simply maintain the system for a few years until a solution to the difficult underlying problems of financing and the benefit structure could be found.

The next part of the prepared statement lists and describes briefly several of these proposals: a simple rollback to the 1977 law; a rollback with general fund transfers for the—

Senator NELSON. You said a rollback to the 1977, do you mean—

Ms. RIVLIN. The pre-1977 law.

Also described are: a rollback with a general fund transfer for health insurance—which you proposed, Mr. Chairman, in testimony before the Senate Budget Committee; an elimination of the disability insurance and health insurance taxes—the Nelson-Mikva bill; one-third general revenue financing—the Hathaway-Burke bill; and finally, tax credits on the personal income tax as a means of relieving the burden of the employee part of the social security tax increase.

I assume that you are familiar with the provisions of those proposals and will not describe them in any greater detail. They are discussed in the fuller statement.

Continuing at the top of page 6, the various alternatives for reducing the burden of the payroll tax differ from each other and from the President's tax cut proposal in terms of their distributional effects, their effects on employment and prices, and their long-term implications for the finances and benefits of the social security system. I will discuss some of these considerations in turn.

#### DISTRIBUTION IMPACTS

The fraction of workers whose earnings fall below the taxable maximum under social security has risen steadily since 1965. By 1981, under current law, 94 percent of the covered workers will have all of their earnings below the covered maximum as may be seen in table 6 of the prepared statement.

Senator NELSON. Ninety-four percent will have income below the taxable maximum?

Ms. RIVLIN. In other words, 94 percent of all covered workers will have their entire earnings subject to the social security tax.

Senator NELSON. That is the percent of the employees covered?

Ms. RIVLIN. It is the percent of workers in covered employment who have all of their earnings below the taxable maximum.

Senator NELSON. All of whose earnings?

Ms. RIVLIN. Yes.

Senator NELSON. Do you have a figure for what it was when the social security system started?

Ms. RIVLIN. Yes. If you will look at table 6 on page 20, you will see that the percentage was approximately the same in 1937. What has happened over the years is that, when the social security system was begun, the taxable maximum was only \$3,000, but most people did not

earn that much. Thus, 96.9 percent had earnings that were \$3,000 or less.

The proportion declined over the years, until 1965. Since then, as the maximum has been raised by legislation, the proportion has risen again. By 1981 or 1982, we will be approximately back to where we were when the system started. In other words, all of most people's earnings will be subject to the tax.

These increases in the tax base have converted the social security system from a regressive tax on earnings back to a more nearly proportional tax on the earnings of covered workers.

The social security tax is not proportional, however, when calculated as a percent of total family income, which includes transfer income, property income, and income from other sources. Earnings account for a relatively small proportion of the income of the lowest-income families—transfer income is important for them. Thus, the social security taxes rise as a proportion of income from the low to the middle ranges of family income, remain at a roughly constant proportion through the middle, and decline at the top, where property income becomes more important and a larger fraction of earnings exceed the taxable maximum. These distributional effects may be seen in table 7 in the prepared statement.

By contrast, the Federal income tax is a steadily progressive tax throughout the income distribution. Hence, changes that result in the substitution of income tax revenues for social security tax revenues tend to increase the progressivity of the Federal income tax system.

The focus of attention at the moment, however, is not so much on the effect of substituting one kind of tax for another as on the contrast between the effects of alternative tax cuts on various income groups. Table 8 compares the effects of alternative tax cuts on families at different income levels.

The Nelson-Mikva bill for eliminating the health insurance and disability insurance taxes as well as the refundable 10-percent credit would both result in equal percentage reductions in social security taxes across the board. About 18 percent of the tax relief under these bills would go to families with incomes under \$15,000; 32 percent would go to families between \$15,000 and \$25,000; and 50 percent would go to those with incomes over \$25,000.

The Hathaway-Burke proposal for one-third general revenue financing, which reduces tax rates but raises the earnings base, would benefit lower income families more than an across-the-board reduction in employee payroll tax liabilities. Under the Hathaway-Burke bill, 25 percent of the tax relief would go to families with incomes under \$15,000 a year and 31 percent to those with incomes over \$25,000. This higher income group includes the 4 percent of all families with incomes over \$50,000 a year, who would actually pay more taxes under the Hathaway-Burke bill because that bill raises the base even further. Conversely, the Nelson proposal to roll back both the tax rates and the tax base to their pre-1977 levels would benefit those at the higher end of the income distribution relatively more because these groups had the greatest increase in their tax burden under the 1977 amendments.

There are a couple of different ways of looking at these data, and table 9 shows the income, not by families, but by tax units, because

that is how we happen to have the data for the administration bill. Table 9 compares the distributional impact of the several social security tax rollback provisions with that of the administration's proposal.

The administration's proposed tax reduction with the reforms is more skewed toward the lower and middle income tax filing units than any of the social security tax reduction proposals, except for the Hathaway-Burke bill. Without the reforms, however, the administration's proposals are somewhat more generous to the upper part of the income range than an across-the-board reduction in social security tax payments—such as the Nelson-Mikva bill or the refundable tax credit—would be, but less so than the Nelson proposal for a rollback of the social security rates and base to their pre-1977 level.

The distributional effects of the various proposals can, of course, be compared in many ways. I have attached to my prepared statement a supplement that contains tables giving more detailed information.

In evaluating the distributional impact of the various alternatives, two caveats should be kept in mind. First, the proposals are distributing very different total amounts of tax relief. Presumably, the social security proposals that reduce tax revenues by relatively small amounts could be combined with an income tax cut. The net effect on the income distribution would then be the average of these two kinds of reductions.

Second, our analysis of the distributional effect refers only to the employee and the self-employed portion of the social security tax. The eventual distribution of the employer's share of the tax, which is nearly as large, is very difficult to determine. If the major impact of that reduction is to lower prices, then consumers in general, including those who pay no social security taxes, would benefit according to their expenditures, which in turn, are roughly distributed proportionally to income. If, however, a reduction in the employer share ultimately resulted in an increase in wages of covered employees, then the distribution of the employer share would be much like that of the employee share.

#### AGGREGATE ECONOMIC EFFECTS

Now, let me turn to the aggregate economic effects, which are the other set of issues to be discussed in evaluating these proposals.

A major argument for the administration's proposal for cutting personal income taxes is that economic growth is likely to slow significantly if measures are not taken to offset the dampening effects of legislated increases in social security taxes combined with the automatic increases in effective Federal income tax rates that are induced by inflation. Although a reduction in income taxes can stimulate demand, unlike a reduction in social security taxes, it cannot reduce inflationary pressures.

A reduction in the employee share of social security taxes would directly increase the take-home pay of workers, which in turn would raise overall demand. The reduction in the employer share of the payroll tax operates in a more complicated way.

Payroll taxes are a cost of production and, as such, are likely to be at least partially reflected in the prices of goods produced. Initially, a reduction in this tax may increase profits. But as firms try to expand

sales, competition, combined with reduced costs can be expected to contribute to a moderation in price increases—a one-time moderation occurring over the year or so following the tax cut.

In the long run, wages might also be bid up as firms attempted to expand and increase their work forces. By reducing the rise in the price level, or by raising wages, the cut in the employer share of the social security tax would also increase purchasing power and would then serve as an additional stimulus to economic activity.

CBO estimates that if a large part of the employer share of the tax were passed on in the form of lower prices, a \$10 billion decrease in the payroll tax could be expected to lead to a reduction in the price level of 0.2 of a percentage point after about a year. The proposal to roll back the tax increases scheduled for 1979 would keep taxes from rising by about \$3.6 billion and would therefore be expected to prevent an increase in the price level of less than 0.1 of a percentage point.

The Hathaway-Burke and Nelson-Mikva bills reduce payroll taxes by larger amounts—by \$35 to \$37 billion in calendar year 1979. They are estimated to reduce the rise in the Consumer Price Index by one-half to three-fourths of a percentage point during the first year after enactment.

The administration's tax proposals have a slight negative effect on prices because the inflationary effects associated with the increased growth would be roughly offset during the first year by the favorable price effects that would result from the proposed reduction in unemployment insurance taxes and in the telephone excise taxes.

The two social security tax reductions are greater in magnitude and so would eventually produce a greater stimulus to output and employment than the President's proposed tax reduction. Dollar for dollar, however, the first full-year effects are expected to be quite similar.

CBO is not able to distinguish different employment and price effects among the various proposals to cut payroll taxes for both employers and employees, except insofar as the differences relate to the size of the tax changes. However, since the proposal for a 10-percent refundable tax credit for employees and the self-employed would leave the payroll tax burden on employers unchanged, production costs and prices would not be directly affected by this measure. This proposal would have stimulative effects on economic activity similar to personal income tax cuts, but it would not have a price effect.

#### LONG-TERM ISSUES

In the short run, payroll taxes could be reduced by significant amounts without raising general tax rates, if one was willing to live with a larger deficit. Substituting the Hathaway-Burke bill for the administration's proposed income tax cuts would increase the Federal deficit in fiscal year 1979 by \$3.6 billion; substituting the Nelson-Mikva bill would raise it by about \$9.7 billion, as may be seen in table 11. By fiscal year 1980, each would add \$13 billion more to the Federal deficit than would the administration's proposed cut.

In the long run, however, both these social security tax reduction proposals imply considerably larger losses in Federal revenues than the President's tax proposal. By 1983, under both proposals, the pay-



roll tax losses would be around \$70 billion more than current law, as compared with \$35 billion under the President's proposal.

Revenue losses of this magnitude mean that in the future there would be substantially less room in the budget for spending increases than there would otherwise have been, or effective tax rates may have to be allowed to rise.

Choosing between the payroll tax and the income tax as a source of funding for social security involves not only the question of whether the income tax has more desirable economic and distributional consequences than the payroll tax but also the implications of general revenue funding for social security.

Opponents of general revenue funding for social security argue that such indirect financing would inevitably lead to program expansion inasmuch as the true cost of benefit liberalization would be obscured if benefit increases were not explicitly tied to the tax increase. Furthermore, they argue that it would weaken the insurance nature of the program, through which individual workers earn the right to benefits through work in covered employment. Since the value of the health insurance benefit is not directly tied to past contributions, this argument is less persuasive for the medicare program. Retired beneficiaries may fear that, by cutting the tie between contributions and benefits, general revenue financing would lead to the introduction of a needs test for benefits.

There is another alternative to raising payroll taxes that would avoid the use of general revenue funding—that is, the use of social security benefits could be restructured so that future costs do not increase as rapidly as they are now scheduled to do. This could be done by limiting benefits in specific categories of future beneficiaries or by an overall modification of the benefit structure.

Simply for illustration, we have included a few such possibilities in table 12.

Unfortunately, the choices for financing social security in the long run are very difficult to make. Even the increases in payroll taxes scheduled under the current law are not likely to be sufficient to provide funds to cover outlays much beyond the year 2020.

Ultimately, then, the choice must be made between raising taxes—whether income or payroll taxes—and providing for a lower level of benefit. The implications of this basic choice should be debated carefully over the next few years.

Thank you, Mr. Chairman.

Senator NELSON. Thank you very much.

Just for purposes of explanation in the record, the bill that was put in by Mr. Mikva and myself opposed the transferring of hospital insurance and disability insurance out of the social security program. However, I made it clear at the time I introduced the bill that I had some serious reservations about the disability aspects because it is wage related.

No. 2, I made it clear that in any event we would anticipate transferring one or both over an extended period of time, not in 1 year.

My own view is still the same, that I have serious doubts about transferring the disability insurance. I do happen to believe that we ought

to transfer the hospital insurance benefits as that ultimately will become part of whatever national health insurance program we propose.

Third, we will not be making that proposal in respect to the President's pending tax cut. At most I would be recommending some infusion of general fund moneys into the hospital insurance program and then reduction of the amount of the tax cuts proposed for personal and corporate taxes.

There is one further proposal, which I mentioned this morning, that is being discussed and I have not had a chance to look at any charts on it, but it might be helpful, if it is not too much of a burden, for you or your people to look at it. That would be a proposal that left the base rates as they are, that is, 1972-73 law, as amended and put general fund money into the hospital insurance program and reduced the tax rate.

Now, that would have a different coloration respecting progressivity, obviously, because it would not be addressing itself to any change in the base rate, but it would address itself to a question of either holding the rate where it is, reducing it to 5.85 or some such measure like that.

It is much simpler than any of the other proposals I have looked at and it may be much more practicable. I understand the House Democratic caucus voted this morning 150 or thereabouts to 57 in favor of a program, as I understand it, along that line, of some money going into the hospital insurance program. Whether they dealt with the question of wage base, I do not know.

MS. RIVLIN. We would be glad to look into that further, especially when we get a copy of what the House caucus did.

Senator NELSON. Do you have any questions?

Senator DANFORTH. Thank you, really, for a very helpful statement, which I am going to have to digest.

I just wanted to ask you views on timing.

It seems to me that, and I think you indicated this in the concluding part of your comments about looking at the benefit structure long range. It seems to me that what we have received by virtue of the great public outcry on social security tax increases, is an invitation to take a whole new look at social security and, as I pointed out earlier to Mr. Blumenthal, what I am concerned about is that there is such immediate pressure on Congress to do something, some sort of rollback, that we are going to blow the opportunity to have a more comprehensive examination of what the future holds.

So what I would like to ask you is the following. First, how long do you think it would take, given all the studies that have taken place and all of the studies that are in the works, when do you think we would be prepared to make a judgment as to the long-term configurations of social security benefits and financing?

Second, if we are going to have an interim quick-fix approach to social security, what kind of interim quick fix is the most easy to undo?

I mean, maybe a 10 percent tax credit would be easier to undo than financing medicare out of social security, I do not know. But that is the kind of concern that I have.

MS. RIVLIN. On the first question, it seems to me that it may be a mistake to think that there will be one moment for rethinking the whole social security system—taxes and benefits—and that you can only do it

once. Last year, 1977, a great deal of attention was focused on the whole financing problem—in its longer and shorter run aspects. While there was a good deal of disagreement about what to do, I do not think it can be said that the debate was not thoughtful and well-informed. The result was a bill that did take care of the problem of underfunding for quite a long time into the future.

On the other hand, there may now be a moment for looking more carefully at the benefit side. Of course, benefits were affected by decoupling and, in my opinion, that was probably the most important single aspect of the 1977 amendments. But the question about how to restructure the benefits is very complicated, and I do not think that anyone can say what studies exactly are needed. If, however, one were going to reexamine the whole benefit structure, one probably ought to take a year or so to do it.

I am not sure that reexamination has to be tied necessarily to changes in the financing.

With respect to what quick fixes would be most easily undone, a hold everything is probably the easiest thing. Some form of a rollback would be the easiest thing to undo. It would be just delaying something until one could decide what to do next.

But the Congress always has the power to change its mind, and I guess I would not worry terribly if you could not change your mind again on almost any of these things.

Senator DANFORTH. I think the problem is not the power. The power is the political reality.

What politicians want to do is what is popular and what they dread is doing something that is unpopular. For example, on the decoupling question, everybody conceded that something had to be done about decoupling, that it was a technical mistake that was made that had to be corrected, and yet, we paid very little attention to the form that decoupling took.

The reason that we paid very little attention to the form that decoupling took is that anything other than wage indexing was viewed as unpopular and therefore, we did not want to do what was unpopular.

Now, I believe it is true that that decision, which was made in a very hasty way, that that decision on decoupling was, in the long range, the most expensive thing we did. And it seems to me that the question such as the form that decoupling takes is already one that has been pretty well studied.

What I would like to do and what I think we should do is to look at the big picture and start looking at the big picture very quickly and try to make a decision as quickly as we can, and not follow a sort of an emergency short term approach to social security which would, in effect, preclude, as a political reality, the possibility of looking at the big picture in the future.

Ms. RIVLIN. Let me just respond by saying that I think that there are great differences in the complexity of these various issues. Decoupling was an extraordinarily complex issue. Hardly anybody understood it.

Senator DANFORTH. But it has been very well studied, has it not?

Ms. RIVLIN. Oh, it has been very well studied, but it is inherently extremely complicated, whereas some of the other issues are not so complex. It seems to me that the question of the one-third, one-third,

one-third on general revenue financing—as in the Hathaway-Burke bill—is a pretty simple idea. It may have very far-reaching philosophical connotations and people may be quite emotional about whether they are for it or against it, but it is not hard to understand. It seems to me that the financing issues as they have come up now—that is about the level of the tax and the extent of general revenue financing—are of a different order than decoupling.

Senator DANFORTH. Decoupling is a complex issue, but as far as expert analysis is concerned, as far as studies is concerned, the analysis has taken place, it has been done. It is a question of those of us and Congress just getting it through our thick skulls what the issues are.

So, I do not know what is to be gained by putting that off a year or two. It seems to me that our analysis of what the studies already show.

Similarly, the question of universal coverage, that would not take very long to analyze, would it? Nor would the question of whether or not to put off benefits, say, after the year 1990 or after the year 2000, a month a year.

Those are concepts that have floated around and it seems to me that the basic problem with each of them is not with lack of knowledge, but the basic problem with them is lack of popularity, lack of political salability. And the only way that you can get to a real analysis of the whole benefit question, of the unpopular question, the only way that you are ever able to get to that is with the pressure of something else that is unpopular on the other side, and what else is unpopular is the fact that people are being taxed too much.

Ms. RIVLIN. Well, you may well be right and you are a much better expert on the politics of the situation than am I.

Senator DANFORTH. Your feeling of what is most easily undoable is to simply roll back the increase?

Ms. RIVLIN. That would be my off-the-top-of-the-head reaction. To hold everything—which clearly does not solve the problem, but just puts off—would be the simplest to undo.

Senator DANFORTH. Roll it back and pay for—just do nothing, have no infusion of funds into the social security trust funds? Just roll back the tax?

Ms. RIVLIN. I do not want to get backed into a position of advocating that. But in response to the question of what would be easiest to undo, it seems to me that that would be it.

Senator DANFORTH. Could we do that responsibly?

Ms. RIVLIN. You could do it for a year, probably.

Senator DANFORTH. We could punt for a year.

Ms. RIVLIN. I am not saying that that would be desirable, but you probably could do it.

Senator DANFORTH. So, then the other things we could do would be to take a part of it, medicare, say, and finance that out of general revenues. That is another way of—that is just simply one of several ways of putting in general revenue financing?

Ms. RIVLIN. That is correct.

Senator DANFORTH. Is that approach easier to undo than say, just putting in general revenue funds?

Ms. RIVLIN. You are asking what is essentially a political question of an economist. Offhand, it does not seem to me that that is a

very complex thing to turn around. But to go to general revenue financing for any portion of the social security system is probably a major step, and it is one that ought to be taken very thoughtfully. It seems that the medical portion is the most logical portion to do because it is not related to earnings and the case for tying it to the payroll tax on earnings is a weak one.

Senator DANFORTH. How about the 10 percent tax credit? Would that not be the easiest to undo, because you would be financing it for a year. It is always easy to—I do not know. You would still have the high rate of social security taxes, you would just be giving it back out of the income taxes.

Ms. RIVLIN. Again, it is a simple thing to do, but the history of tax credits is that they are not easy to reverse.

Senator DANFORTH. That is right, although a tax credit would seem to me to be easier to reverse than a tax reduction justified on the basis of compensation for a social security tax increase. A tax reduction applies to everybody.

Ms. RIVLIN. Yes; I do not know whether or not that fine distinction would be apparent to the taxpayer, however.

Senator DANFORTH. I am sorry to be asking you political questions. You are not the Kiplinger letter, or something like that, but I appreciate your answers.

Senator NELSON. None of the things proposed would be easy to undo. The reason I support putting money into the hospital insurance program is because I would not want it undone. I would want it as being nonrelated, added to the system in 1964, simply moved out of the system and therefore it seems to be a very simple proposal—unless you do not believe in it, of course.

But if you start that course, I would not expect it to be undone. I would expect that ultimately at least 50 percent of hospital insurance, if not all of it, would then come out of the general fund.

On the decoupling question, I think Senator Danforth is right, we got all kinds of information. But I would wager that not 10 percent of the Congress understood or had studied the decoupling question, let alone the public. Therefore, the wage replacement, the wage indexing, was not understood, I do not believe, by most Members of Congress because they did not have enough time on it, and not understood by the general public, and if you would discuss the question of price indexing, wage indexing or something in between, taking out the productivity say, on the wage indexing, I would say a very small percentage of the people understood it, in the Congress or outside, because it is complicated and they did not have the opportunity to address themselves to it. A dialog on it, I think, is very important, and I would say to Senator Danforth that we do not intend to wait for a long time. We intend to commence hearings, as I said last year, on the whole question of universal coverage, termination of the Federal retirement plan, or at least, as a minimum, putting every new employee under social security, the relation of the social security system to the private pension plans, the replacement rate, all of these things. Congress agreed last year that we would start addressing ourselves to them, the sooner the better.

Ms. RIVLIN. Let me say, in defense of the Congress, it seemed to me that on decoupling you handled a very complicated issue and you did resolve it in a way that certainly made the bill better than the existing situation.

Senator DANFORTH. Anything was better than the existing situation, so what we did was just take the most popular approach, that is what we did, without any thought. We asked ourselves, what is the most popular? Where will there be the least amount of hollering, and it was just as simple as that.

Senator NELSON. I really do not think that is correct because how can you say that something is popular when 90 percent of the people did not know what it was, including the Members of the Congress. It was not a popularity question.

Senator DANFORTH. It was not 90 percent of the people, but those who were aware of it had very definite views on it and they constituted something of a pressure group themselves.

But my view is that the whole thing just needs another look. Essentially, when you talk just about financing in and of itself without looking at the payout question, it is kind of like going to lunch and you say, I do not have enough money to pay for my lunch, so what am I going to do? Am I going to borrow money from the guy at the next table or am I going to use the Master Charge or American Express? It is a little bit of six of one, half a dozen of the other. There may be marginal differences in the effect on inflation and distribution questions and so forth, but maybe we should ask, not only whether we use the Master Charge or the American Express. Maybe we should be asking whether we should be eating so much, whether we should be ordering up this particular spread of food.

I would like to see a very thorough study and I think that this is a classic case of the issue, if you will pardon my going back to the same metaphor, of the free lunch question.

Senator NELSON. I think it is broader than that. I have advocated, and did in the reorganization plan, that we create a pension committee, because nobody is currently charged with that responsibility. You have Finance, the committee in charge of social security; the Armed Services Committee in charge of the retirement program for the military; and the old Post Office Civil Service in charge of the Civil Service one, and none of them knows what the other is doing, and none of it is very well planned.

I had hoped that we could create a pension committee and my proposal was to put it inside the Budget Committee where the expertise is.

But, in any event, I agree with Senator Danforth. There has not been a careful, constant evaluation and reevaluation of where we are going in social security, just as there has not been for the Federal retirement plans.

Well, your testimony was very valuable. We appreciate all the work that you have done in putting together these useful charts and useful analyses.

Thank you very much.

Ms. RIVLIN. Thank you, Mr. Chairman.

[The prepared statement of Ms. Rivlin follows:]

## STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, the social security amendments enacted in December 1977 accomplished two major tasks. First, the procedure for indexing benefits was "decoupled," so the formula for determining the benefits of new retirees will no longer overcompensate for inflation. Second, the legislation provided for sufficient revenues to fund expected outlays in both the old age and survivors insurance (OASI) and the disability insurance (DI) programs over the next 40 years. These actions did much to reassure the public that the social security system would continue to be a dependable source of income for retired and disabled persons.

That financial soundness was achieved, however, through increases in the payroll tax rate (on both employers and employees) and in the covered earnings base. Under the new law, these increases start modestly for 1979. The average worker would pay only about \$10 to \$15 more in payroll taxes during 1979, although the 17 million workers earning more than the current maximum could find their payroll taxes increased as much as \$200 in 1979.

By 1990 the tax rate in OASDI and the health insurance (HI) programs combined, will rise to 7.65 percent on employers and employees—a 19 percent increase over the pre-1977 law. By that year, the earnings base will rise to about \$59,000 a year—a 33-percent increase over past law.

Two decisions mandated these large increases. The first was the acceptance of a benefit structure in which total benefit payments, even under the new decoupled benefit formula, are expected to rise significantly over the next 50 years (see Table 1). The second decision that made the payroll tax increases inevitable was the rejection of general revenue funding.

Since the 1977 amendments were enacted, concerns about the impact of the social security tax increases on both individuals and the economy have grown. One concern is that, in an economy not yet fully recovered from recession, tax increases could dampen consumer demand and employment. The Administration's proposal to cut personal and corporate income taxes by \$25 billion in fiscal year 1979 was prompted in part by a perceived need to offset the dampening effects of the social security tax increases on the economy. Another concern, less easily offset by changes in other taxes, is that payroll tax increases may aggravate inflation at a time when prices are already increasing at far too rapid a rate.

## PROPOSALS FOR CHANGE

In response to the concern over rising social security taxes, several Members of Congress have proposed legislation that would reduce the payroll tax and that could therefore be viewed as partial or full substitutes for the Administration's proposed income tax cut. Some of the proposed alternatives would reduce social security taxes considerably—even below the levels in effect before 1977—and would require significant permanent changes in the way social security is financed. Others would simply maintain the system for a few years, until a solution to the difficult underlying problems of financing and the benefit structure could be found.

*Simple rollback to pre-1977 law*

One temporary expedient is to roll back the tax rates and the taxable earnings base to what had been scheduled prior to the 1977 amendments. If no additional funds were made available, receipts would not be sufficient to cover outlays and the existing trust fund reserves would have to be used to make benefit payments. CBO estimates that the OASI and DI funds, even if combined, would fall to about \$13 billion by the end of fiscal year 1981 and would probably be exhausted in fiscal year 1983. Because payroll tax receipts are highly sensitive to changes in the economy, the funds would be depleted sooner in the event of an economic downturn. A simple rollback would therefore leave the social security system in a vulnerable position.

*Rollback with general fund transfer for HI*

In testimony before the Senate Budget Committee on March 20, 1978, Senator Nelson proposed rolling back the total payroll tax rate (OASDI and HI) and the taxable earnings base to their scheduled levels before the 1977 legislation, while

maintaining the financial positions of the three social security programs as they would be under current law, by shifting tax receipts from HI to OASDI. The HI trust funds would in turn be kept at the levels they would have attained under current law by general revenue transfers. CBO estimates that about \$4.6 billion would be required in general fund transfers in fiscal year 1979, with a cumulative total of \$30.8 billion through fiscal year 1981. If no new legislation were passed by 1981, the provisions of the 1977 act would be implemented in 1982.

*Eliminate DI and HI taxes (the Nelson-Mikva bill)*

A more far-reaching proposal, introduced by Senator Nelson (S. 2508) and Congressman Mikva, would finance the disability and hospital components entirely from general revenues and would eliminate the DI and HI taxes now levied on earnings. OASI tax rates would be slightly lower than under current law, but the earnings base would be the same. Major transfers from general revenues—\$35 billion in fiscal year 1979 and \$64 billion by fiscal year 1983—would be needed to keep the DI and HI programs at current law levels.

*One-third general revenue financing (the Hathaway-Burke bill)*

Another far-reaching proposal, introduced by Senator Hathaway (S. 2501) and Congressman Burke, would lower payroll tax rates in OASDI and HI considerably, but it would raise the annual earnings level on which taxes and benefits are based to \$100,000 in 1979 and would index the level thereafter. The federal government would insure that total revenues into the social security trust funds equal 150 percent of the amount collected in payroll taxes, thus ensuring that one-third of the total trust fund income would be derived from general revenues.

The Hathaway-Burke bill would require higher revenues, partly because the higher maximum results in a higher level of future outlays and partly because the bill stipulates that the OASDI system must be balanced fully over the next 75 years, whereas the other plans imply likely deficits after about the year 2020. As a result, larger OASDI trust fund reserves would be accumulated under the Hathaway-Burke bill than under current law. The Hathaway-Burke bill would require a transfer from the general fund of \$45 billion in fiscal year 1979 and \$66 billion by fiscal year 1983.

*Tax Credits*

An alternative method of reducing the burden of increases in social security taxes is to allow a refundable credit against personal income taxes for a portion of social security tax payments. A refundable credit of 10 percent of only the employee and the self-employed social security tax liability would reduce income tax receipts by \$6.5 billion in fiscal year 1979.

Such a credit against income taxes formally retains equal rates and wage bases for both employer and employee while effectively reducing the tax burden on employees and providing indirect general revenue funding.

Social security tax rates and the tax base for the next five years, under current law and under the several alternatives for reducing social security taxes, are shown in Table 2. Tables 3, 4, and 5 show the effects of these changes on payroll tax receipts, on required transfers from the general fund, and on trust fund balances.

The various alternatives for reducing the burden of the payroll tax differ from each other and from the President's tax cut proposal, in terms of their distributional effects, their effects on employment and prices, and their long-term implications for the finances and benefits of the social security system. I will discuss each of these considerations in turn.

**DISTRIBUTIONAL IMPACTS**

The fraction of workers whose earnings fall below the taxable maximum has risen steadily since 1965. By 1981, under current law, 94 percent of covered workers will have all of their earnings below the taxable maximum (see Table 6). These increases in the tax base have converted the social security tax from a regressive tax on earnings to a more nearly proportional tax on the earnings of covered workers.

The social security tax is not proportional, however, when calculated as a percent of total family income, which includes transfer income, property income, and income from other sources. Because earnings account for a relatively small pro-



portion of the income of lower-income families (transfer income is important for them), OASDHI taxes rise as a proportion of income from the low to middle ranges of family income, remain at a roughly constant proportion through the middle, and decline at the top, where property income becomes more important and a larger fraction of earnings exceed the taxable maximum (see Table 7).

By contrast, the federal income tax is a steadily progressive tax throughout the income distribution. Hence changes which result in a substitution of income tax revenues for social security tax revenues tend to increase the progressivity of the federal tax system.

The focus of attention at the moment, however, is not so much the effect of substituting one kind of tax for the other as the contrast between the effects of alternative tax cuts on various income groups. Table 8 compares the effects of alternative tax cuts on families at different income levels.

The Nelson-Mikva bill for eliminating HI and DI taxes and the refundable 10 percent credit would both result in equal percentage reductions in social security taxes across the board. About 18 percent of the tax relief under these bills would go to families with incomes under \$15,000 a year; 32 percent would go to families with incomes between \$15,000 and \$25,000; and 50 percent would go to those with incomes over \$25,000.

The Hathaway-Burke proposal for one-third general revenue financing, which reduces tax rates but raises the earning base, would benefit lower-income families more than an across-the-board reduction in employee payroll tax liabilities. Under the Hathaway-Burke bill, 25 percent of the tax relief would go to families with incomes under \$15,000 a year and 31 percent would go to those with incomes over \$25,000. This higher income group includes the 4 percent of all families with incomes above \$50,000 a year, who would actually pay more taxes under the Hathaway-Burke bill. Conversely, the Nelson proposal to roll back both the tax rates and the tax base to their pre-1977 levels would benefit those at the higher end of the income distribution relatively more, because these groups had the greatest increase in their tax burden under the 1977 amendments.

A comparison of the effects of the various social security tax reduction proposals with the Administration's proposed income tax cut is shown in Table 9. Data giving the effects of the President's tax cut on families classified by their total income are not available. As an expedient, Table 9 uses currently available information that gives distributions for individuals and couples filing income tax returns.<sup>1</sup>

The Administration's tax reduction, with reforms, is more skewed toward the lower- and middle-income tax filing units than Hathaway-Burke bill. Without the reform, the Administration's proposal is somewhat more generous to the upper part of the income range than an across-the-board reduction in social security tax payments would be (Nelson-Mikva or the refundable tax credit), but less so than the Nelson proposal for a rollback of the OASDHI rates and base to their pre-1977 levels.

The distributional effects of the various proposals can, of course, be compared in many ways. I am attaching a supplement that contains tables giving more detailed information.

In evaluating the distributional impact of the various alternatives, two caveats should be kept in mind. First, the proposals are distributing very different total amounts of tax relief. Presumably, the social security proposals that reduce tax revenues by relatively small amounts could be combined with an income tax cut. The net effect on the income distribution would then be the average of the two kinds of reductions.

Second, our analysis refers only to the employee and self-employed portion of the social security tax. The eventual distribution of the employer's share of the tax, which is nearly as large, is very difficult to determine. If the major impact

<sup>1</sup> Because Table 9 shows the distribution of income tax filing units rather than for families, the percentages in each income class are not the same as in Table 8. For example, the tax filing unit data include as separate units many young people and others filing tax returns who are classified as low-income, although they may be members of higher-income families. This and the fact that the data refer to 1977 income levels account for the inordinately large percentage shown in Table 9 as having incomes below \$5,000. In addition, the two sets of data also use different definitions of income. Despite these differences, the tables tell the same general story with respect to the comparative effects of the different proposals.

of that reduction is to lower prices, then consumers in general, including those who pay no social security taxes, would benefit according to their expenditures, which in turn are roughly distributed proportionally with income. If, however, a reduction in the employer share ultimately resulted in an increase in the wages of covered employees, then the distribution of the employer share would be much like that of the employee share.

#### AGGREGATE ECONOMIC EFFECTS

A major argument for the Administration's proposal for cutting personal income taxes is that economic growth is likely to slow significantly, if measures are not taken to offset the dampening effects of legislated increases in social security taxes combined with the automatic increases in effective federal income tax rates that they are induced by inflation. Although a reduction in income taxes can stimulate demand, unlike a reduction in social security taxes, it cannot reduce inflationary pressures.

A reduction in the employee share of social security taxes would directly increase the take-home pay of workers, which in turn would raise overall demand. The reduction in the employer share of the payroll tax operates in a more complicated way. Payroll taxes are a cost of production and, as such, are likely to be at least partially reflected in the prices of goods produced. Initially, a reduction in this tax may increase profits. But, as firms try to expand sales, competition, combined with reduced costs, can be expected to contribute to a moderation in price increases—a one-time moderation occurring over the year or so following the tax cut. In the long run, wages might also be bid up, as firms attempt to expand and increase their work forces. By reducing the rise in the price level, or by raising wages, the cut in the employer share of the social security tax would also increase purchasing power and would then serve as an additional stimulant to economic activity.

CBO estimates that if a large part of the employer share of the tax were passed on in the form of lower prices, a \$10 billion decrease in the payroll tax could be expected to lead to a reduction in the price level of two-tenths of a percentage point after about a year. The proposal to roll back the tax increase scheduled for 1979 would keep taxes from rising by \$3.6 billion and would therefore be expected to prevent an increase the price level of less than one-tenth of a percentage point.

The Hathaway-Burke and Nelson-Mikva bills reduce payroll taxes by \$35 to \$37 billion in calendar year 1979; they are estimated to reduce the rise in the consumer price index by one-half to three-fourths of one percentage point during the first year after enactment (see Table 10). The Administration's tax proposals have a slight net negative effect on prices, because the inflationary effects associated with increased growth would be roughly offset during the first year by the favorable price effects that would result from the proposed reduction in unemployment insurance taxes and in telephone excise taxes.

The two social security tax reductions are greater in magnitude and so would eventually produce a greater stimulus to output and employment than the President's proposed tax reduction. Dollar for dollar, however, the first full-year effects are expected to be quite similar.

CBO is not able to distinguish different employment and price effects among the various proposals to cut payroll taxes for both employers and employees, except insofar as the differences relate to the size of the tax changes. However, since the proposal for a 10 percent refundable tax credit for employees and the self-employed would leave the payroll tax burden on employers unchanged, production costs and prices would not be directly affected. This proposal would have stimulative effects on economic activity similar to a personal income tax cut.

## LONG-TERM ISSUES

In the short run, payroll taxes could be reduced by significant amounts without raising general tax rates. Substituting the Hathaway-Burke bill for the Administration's proposed income tax cuts would increase the federal deficit in fiscal year 1979 by \$3.6 billion; substituting the Nelson-Mikva bill would raise it by \$0.7 billion (see Table 11). (By fiscal year 1980, each would add \$13 billion more to the federal deficit than would the Administration's proposed cut.)

In the long run, however, both these social security tax reduction proposals imply considerably larger losses in federal revenues than the President's tax proposal. By 1983, under both proposals, the payroll tax losses would be around \$70 billion more than current law, as compared with \$35 billion under the President's proposal. Revenue losses of this magnitude mean that in the future there will be substantially less room in the budget for spending increases than there would otherwise have been, or effective tax rates may have to be allowed to rise.

Choosing between the payroll tax and the income tax as a source of funding for social security involves not only the question of whether the income tax as a source of funding for social security involves not only the question of whether the income tax has more desirable economic and distributional consequences than the payroll tax but also the implications of general revenue funding for social security.

Opponents of general revenue funding for social security argue that such indirect financing would inevitably lead to program expansion, inasmuch as the true cost of benefit liberalization would be obscured if benefit increases were not explicitly tied to tax increases. Furthermore, they argue it would weaken the insurance nature of the program, through which individual workers earn the right to benefits through work in covered employment. (Since the value of the HI benefit is not directly tied to past contributions, this argument may be less persuasive for the medicare program.) Retired beneficiaries may fear that, by cutting the tie between contributions and benefits, general revenue financing could lead to the introduction of a needs test for benefits.

There is another alternative to raising payroll taxes that would avoid the use of general revenue funding—that is, social security benefits could be restructured so that future costs do not increase as rapidly as they are now scheduled to do. This could be done by limiting benefits for specific categories of future beneficiaries or by an overall modification of the benefit structure. Table 112 shows the differences in social security costs under a few illustrative options for reducing benefits. Changes in the benefit structure would, of course, require more detailed study and analysis.

Unfortunately, the choices for financing social security in the long term are very difficult to make. Even the increases in payroll taxes scheduled under current law are not likely to be sufficient to provide funds to cover outlays much beyond the year 2020. Ultimately, then, the choice must be made between raising taxes—whether income or payroll taxes—and providing for a lower level of benefits. The implications of this basic choice should be debated carefully over the next few years.

TABLE 1.—ESTIMATED OASDI OUTLAYS AS A PERCENT OF TAXABLE PAYROLL AND OF NATIONAL INCOME

Calendar year:	Expenditures as percent of taxable payroll	Expenditures as percent of national income
1977.....	10.9	5.6
1978.....	10.9	5.6
1979.....	10.3	5.3
1980.....	10.1	5.2
1990.....	10.6	5.4
2000.....	10.7	5.6
2010.....	12.2	6.2
2020.....	15.0	7.7
2030.....	17.1	8.8
2040.....	16.7	8.6
2050.....	16.2	8.3

Source: Social Security Administration and CBO estimates.

TABLE 2.—OASDI TAX RATES AND TAXABLE EARNINGS UNDER ALTERNATIVE FINANCING PLANS, CALENDAR YEARS 1979-83

Calendar year	Employer and employee rates, each					Taxable earnings base <sup>1</sup>
	OSAI	DI	OASDI combined	HI	OASDI	
<b>Current law:</b>						
1979.....	4.320	.750	5.080	1.050	6.130	22,900
1980.....	4.330 <sup>2</sup>	.750	5.080	1.050	6.130	25,900
1981.....	4.525	.825	5.350	1.300	6.650	29,700
1982.....	4.575	.825	5.400	1.300	6.700	32,100
1983.....	4.575	.825	5.400	1.300	6.700	34,800
<b>Prior to 1977 act:</b>						
1979.....	4.350	.600	4.950	1.100	6.050	18,900
1980.....	4.350	.600	4.950	1.100	6.050	20,700
1981.....	4.390	.650	4.950	1.350	6.300	22,200
1982.....	4.300	.650	4.950	1.350	6.300	24,000
1983.....	4.300	.650	4.950	1.350	6.300	26,100
<b>Rollback with general revenue transfer to HI:</b>						
1979.....	5.300	.....	5.300	.750	6.050	18,900
1980.....	5.400	.....	5.400	.650	6.050	20,700
1981.....	5.750	.....	5.750	.550	6.300	22,200
1982.....	.....	.....	.....	.....	.....	.....
1983.....	.....	.....	.....	.....	.....	.....
<b>One-third general re-funding (S. 2501, H.R. 10565):</b>						
1979.....	3.200	.....	3.200	.700	3.900	100,000
1980.....	3.200	.....	3.200	.700	3.900	108,000
1981.....	3.250	.....	3.250	.750	4.000	118,000
1982.....	3.250	.....	3.250	.750	4.000	127,000
1983.....	3.250	.....	3.250	.750	4.000	136,000
<b>Elimination of DI and HI taxes (S. 2503, H.R. 10754):<sup>4</sup></b>						
1979.....	4.330	.....	4.330	.....	4.330	22,900
1980.....	4.330	.....	4.330	.....	4.330	25,900
1981.....	4.400	.....	4.400	.....	4.400	29,700
1982.....	4.400	.....	4.400	.....	4.400	32,100
1983.....	4.400	.....	4.400	.....	4.400	34,800

<sup>1</sup> Automatic increases based on CBO economic assumptions.

<sup>2</sup> OSAI and DI combined.

<sup>3</sup> If no new legislation passed, revert to current law.

<sup>4</sup> DI and HI revenues will be entirely from general revenues.

TABLE 3.—SOCIAL SECURITY REVENUES<sup>1</sup> UNDER CURRENT LAW AND CHANGES UNDER ALTERNATIVE PROPOSALS, FISCAL YEARS 1979-83, IN BILLIONS OF DOLLARS

Fiscal year	Revenues under current law	Change in revenues from current law under:			
		Rollback to pre-1977 law	Rollback with general fund transfer to HI (Nelson)	One-third general revenue funding (S. 2501, H.R. 10668)	Elimination of HI and DI taxes (S. 2503, H.R. 10754)
1979:					
OASDI.....	100.0	-4.2	+1.4	-24.5	-14.8
HI.....	20.2	+ .8	-4.6	-4.4	-20.2
OASDHI.....	120.2	-3.4	-3.2	-28.9	-35.0
1980:					
OASDI.....	114.4	-8.7	+ .3	-34.1	-16.6
HI.....	23.4	- .2	-9.1	-6.2	-23.4
OASDHI.....	137.8	-8.9	-8.8	-40.3	-40.0
1981:					
OASDI.....	132.1	-15.5	+1.1	-42.8	-22.0
HI.....	30.5	- .6	-17.1	-10.6	-30.5
OASDHI.....	162.6	-16.1	-16.0	-53.4	-52.5
1982:					
OASDI.....	150.5	-22.0	°	-51.5	-27.6
HI.....	35.8	-1.2	°	-13.6	-35.8
OASDHI.....	186.3	-23.2	°	-65.1	-63.4
1983:					
OASDI.....	165.6	-24.5	°	-57.0	-30.7
HI.....	39.3	-1.2	°	-14.6	-39.3
OASDHI.....	204.9	-25.7	°	-71.6	-70.0

<sup>1</sup> Revenues include net payroll tax receipts and Federal employee contributions; general revenue and interest income are excluded.

<sup>2</sup> Under this proposal, if no new legislation is passed by the end of 1981, the rates and base will revert to those legislated in the 1977 Social Security Amendments. Some additional revenue loss would then occur in the first quarter of fiscal year 1982 (the last quarter of calendar year 1981).

Source: CBO estimates.

TABLE 4.—TRANSFERS FROM GENERAL REVENUES REQUIRED FOR OASDHI TRUST FUNDS UNDER ALTERNATIVE FINANCING PROPOSALS, BY FISCAL YEARS, IN BILLIONS OF DOLLARS

Fiscal year	Alternative		
	Rollback With general revenue transfers to HI	One-third general revenue funding (S. 2501, H. R. 10668)	Elimination of HI and DI taxes (S. 2503, H.R. 10754)
1979.....	4.6	45.2	34.8
1980.....	9.1	48.3	39.8
1981.....	17.1	54.1	50.0
1982.....		60.2	58.3
1983.....		66.1	64.0
Cumulative, 1979-83.....	30.8	273.9	246.9

Source: CBO estimate.

TABLE 5.—TRUST FUND BALANCES AT THE END OF FISCAL YEARS 1979-83 UNDER ALTERNATIVE FINANCING PLANS

[In billions of dollars]

Fiscal year	Current law	Rollback to pre-1977 law	Rollback with general revenue transfers to HI	One-third general revenue funding (S. 2501)(H.R. 10668)	Elimination of DI and HI taxes H.R. 10754, S. 2503
1979:					
OASDI.....	33.9	29.6	34.8	46.3	33.9
HI.....	12.7	13.5	12.7	15.9	12.7
OASDHI.....	46.6	43.1	47.5	62.2	46.6
1980:					
OASDI.....	35.5	21.8	36.7	54.2	35.8
HI.....	13.8	14.5	13.8	19.5	13.8
OASDHI.....	49.3	36.3	50.5	73.7	49.6
1981:					
OASDI.....	43.2	12.6	45.6	64.3	41.6
HI.....	18.4	18.4	18.4	23.7	18.4
OASDHI.....	61.6	31.0	64.0	88.0	60.0
1982:					
OASDI.....	58.0	2.6	60.6	77.5	51.6
HI.....	24.3	23.1	24.3	27.6	24.3
OASDHI.....	82.3	25.7	84.9	105.1	75.9
1983:					
OASDI.....	75.8	-8.7	78.6	92.5	63.7
HI.....	296.2	26.6	29.2	30.2	29.2
OASDHI.....	105.0	17.9	107.8	122.7	92.9

Source: CBO estimates.

TABLE 6.—THE TAXABLE EARNINGS MAXIMUM AND THE PERCENTAGE OF COVERED WORKERS WITH ENTIRE EARNINGS BELOW THE MAXIMUM, 1937-82<sup>1</sup>

Year:	Taxable maximum	Percentage below maximum	Workers at or above maximum (millions)
1937.....	3,000	96.9	1.0
1940.....	3,000	96.6	1.2
1945.....	3,000	86.3	6.4
1950.....	3,000	71.1	14.0
1955.....	4,200	74.4	16.7
1960.....	4,800	72.0	20.3
1965.....	4,800	63.9	29.1
1970.....	7,900	74.0	24.2
1975.....	14,000	84.9	15.2
1977.....	16,500	85.0	14.9
1978.....	17,700	85.0	16.5
As legislated by Public Law 95-216:			
1979.....	22,900	91.0	10.2
1980.....	25,900	92.0	9.3
1981.....	29,700	94.0	7.1
1982.....	32,100	94.0	7.2

<sup>1</sup> Workers with total annual earnings below the maximum amount annually taxable. Beginning in 1951, includes self-employed.

Source: "Social Security Bulletin, Annual Statistical Supplement, 1975," table 39, p. 72; table 40, p. 73; and, Social Security Administration estimates.

TABLE 7.—INCOME TAX AND OASDHI ESTIMATED TAX PAYMENTS AS A PERCENT OF TOTAL FAMILY INCOME<sup>1</sup>

Family income (1978 dollars)	Individual income tax	OASDHI tax, employee's share	Sum of income and OASDHI taxes
\$1,000 to \$2,999.....	0.1	1.8	1.9
\$3,000 to \$4,999.....	5	1.8	2.3
\$5,000 to \$7,999.....	2.4	3.0	5.4
\$8,000 to \$11,999.....	5.5	4.1	9.6
\$12,000 to \$14,999.....	8.2	4.6	12.8
\$15,000 to \$19,999.....	10.5	5.0	15.5
\$20,000 to \$24,999.....	12.5	5.0	17.5
\$25,000 to \$34,999.....	15.2	4.8	20.0
\$35,000 to \$49,999.....	18.6	4.2	22.8
\$50,000 and more.....	28.2	2.5	30.7
All families.....	14.8	4.2	19.0

<sup>1</sup> Family income includes income of all family members from wages and salaries, self-employment income, interest dividends, rents, social security, pensions, welfare and other transfer payments. Income refers to estimated 1978 income. OASDHI tax payments reflect the current law rates and base scheduled to go into effect in 1979. Income tax payments are rough estimates and may underestimate income tax payments. Families include single person families.

Source: CBO projections of Census Bureau data.

TABLE 8.—COMPARISON OF EFFECTS OF VARIOUS TAX REDUCTION PROPOSALS ON FAMILIES CLASSIFIED BY THEIR INCOMES<sup>1</sup>

[Amounts in percent]

Family income (1978 dollars)	Distribution of		Distribution of tax relief resulting from—			
	Total families	Total income	Across-the-board income tax cut	Elimination of HI and DI tax or 10 percent refundable tax credit	3/4 general revenue financing	Rollback to pre-1977 law
\$1,000 to \$4,999.....	16.4	2.7	0.1	1.1	1.6	0.5
\$5,000 to \$7,999.....	10.3	3.5	6	2.7	3.6	1.1
\$8,000 to \$11,999.....	12.9	6.9	2.6	6.7	9.4	1.1
\$12,000 to \$14,999.....	9.2	6.7	3.7	7.4	10.4	1.3
\$15,000 to \$19,999.....	14.3	13.3	9.5	15.8	22.3	4.7
\$20,000 to \$24,999.....	11.2	13.4	11.3	16.0	22.0	17.6
\$25,000 to \$34,999.....	14.2	22.1	22.8	25.1	29.2	32.4
\$35,000 to \$49,999.....	7.5	16.4	20.6	16.2	12.1	25.4
\$50,000 and over.....	4.0	15.1	28.8	9.1	-10.7	16.9
Total.....	100.0	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> Family income includes income of all family members from wages and salaries, self-employment income, interest dividends, rents, social security, pensions, welfare, and other transfer payments. Income refers to estimated 1978 income. OASDHI tax payments reflect the current law rates and base scheduled to go into effect in 1979. Income tax payments are rough estimates and may underestimate income tax payments. Families include single person families.

Source: CBO projections of Census Bureau data.

TABLE 9.—DISTRIBUTION OF TAX REDUCTIONS BY INCOME CLASS RESULTING FROM CARTER TAX CUT PROPOSAL, AND VARIOUS SOCIAL SECURITY TAX CUT PROPOSALS, CALENDAR 1979<sup>1</sup>

[In percent]

Expended income class <sup>2</sup>	Distribution of total tax reduction from								
	Distribution of 1977 tax returns <sup>3</sup>	Distribution of 1976 expanded income	Distribution of current law tax liabilities	Carter tax cut proposal		Rollback to pre-1977 law	Elimination of HI and DI payroll taxes	One-third general revenue financing	Refundable 10 percent income tax credit
				With reforms	Without reforms <sup>4</sup>				
\$0 to \$5,000.....	28.9	5.3	0.1	3.4	2.4	6.0	5.5	6.1	5.9
\$5 to \$10,000.....	22.9	13.7	6.1	15.9	11.6	7.0	13.3	14.4	13.3
\$10 to \$15,000.....	18.3	18.4	13.4	23.2	18.2	6.6	18.5	20.3	18.5
\$15 to \$20,000.....	13.4	18.8	17.0	24.5	20.7	11.9	25.7	28.1	25.7
\$20 to \$30,000.....	11.3	21.7	24.2	27.3	27.2	49.8	23.2	22.2	23.2
\$30 to \$50,000.....	3.8	11.4	16.3	9.0	12.8	12.8	10.5	8.3	10.5
Over \$50,000.....	1.4	10.7	23.0	-3.3	7.2	6.0	3.3	0.6	3.3
<b>Total.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total 1979 individual tax cut (in billions)<sup>5</sup>.....</b>				<b>\$16.8</b>	<b>\$23.5</b>	<b>\$3.6</b>	<b>\$19.1</b>	<b>\$18.4</b>	<b>\$6.5</b>

<sup>1</sup> The Treasury tax model, upon which the income tax portions of this table are based, has not yet been updated to reflect 1978 income levels. Instead, it superimposes the proposed 1979 tax law on 1976 income levels. If 1978 income levels were used, many taxpayers would be shifted into higher income classes. In order to make the social security changes roughly comparable to the President's tax cut proposals, this table superimposes 1979 social security taxes on 1977 income levels.

<sup>2</sup> Expanded income is a broader concept than the "adjusted gross income" concept that appears on income tax returns and that the Treasury has used for tax analysis tables in previous years. Expanded income includes the untaxed half of capital gains, percentage depletion in excess of cost, depreciation in excess of straight line, and other "tax preference" items included in the minimum

tax; however, it excludes investment interest up to the amount of investment income. It therefore comes closer to "real" total economic income than does the usual adjusted gross income figure.

<sup>3</sup> All of the distributions in this table are based on income tax return filing units. As a result, dependents and second earners from high-income families will appear in lower income categories if they file separate tax returns showing low earnings.

<sup>4</sup> Includes only \$240 personal credit and rate changes.

<sup>5</sup> Tax increases.

<sup>6</sup> Includes only employee and self-employed share of social security tax cuts.

Source: Treasury Department and CBO estimates.



TABLE 10.—EFFECTS OF THREE ALTERNATIVE TAX CUT MEASURES, AS COMPARED WITH BASELINE PROJECTIONS, CALENDAR YEAR 1979

	One-third general revenue financing (Hathaway/Burke)	Elimination of DI and HI taxes (Nelson/Mikva)	President's tax proposals
First-year direct revenue loss (billions of dollars) <sup>1</sup> .....	35.3	36.8	25.0
Effects in calendar year 1979:			
GNP (billions of 1972 dollars).....	16.0	17.0	14.0
Unemployment rate (percent).....	.3	.3	.3
Percent change, general price level.....	.6	.6	.1

<sup>1</sup> The data in the 1st 2 columns refers to calendar year 1979; the figure in the last column refers to fiscal year 1979. Since the President's program starts one quarter earlier, in the fall of 1978, the GNP and unemployment effects shown below are bigger per dollar of revenue loss for the last column. Social security revenue losses are recorded on a trust-fund basis.

TABLE 11.—SUMMARY OF REVENUE EFFECTS OF H.R. 10668, AND THE PRESIDENT'S PROPOSAL ON UNIFIED BUDGET BASIS

[Dollars in billions]

	Fiscal years—				
	1979	1980	1981	1982	1983
<b>S. 2501, H.R. 10668 (one-third general revenue financing):</b>					
Individuals.....	14.9	20.7	27.4	33.2	36.8
Businesses.....	10.7	15.0	19.9	24.1	26.6
States.....	3.0	4.1	5.4	6.7	7.4
<b>Total.....</b>	<b>28.6</b>	<b>39.8</b>	<b>52.7</b>	<b>64.0</b>	<b>70.8</b>
<b>S. 2503, H.R. 10754 (elimination of HI, and DI taxes):</b>					
Individuals.....	18.0	20.7	27.0	32.6	35.7
Business.....	13.1	15.1	19.7	23.6	25.8
States.....	3.6	4.1	5.3	6.5	7.2
<b>Total.....</b>	<b>34.7</b>	<b>39.9</b>	<b>52.0</b>	<b>62.7</b>	<b>68.7</b>
<b>President's tax cut and reform proposal individual income tax:</b>					
Tax reductions.....	-22.5	-25.7	-28.2	-33.4	-38.5
Tax reforms.....	4.2	7.4	8.9	10.6	12.3
<b>Total.....</b>	<b>-18.3</b>	<b>-18.2</b>	<b>-20.3</b>	<b>-22.8</b>	<b>-26.2</b>
<b>Corporation income tax:</b>					
Tax reductions.....	-6.3	-9.4	-11.1	-11.8	-12.8
Tax reforms.....	1.1	3.0	4.3	5.0	5.2
<b>Total.....</b>	<b>-5.1</b>	<b>-6.5</b>	<b>-6.8</b>	<b>-6.8</b>	<b>-7.6</b>
<b>Telephone excise and unemployment insurance tax reductions:</b>					
.....	-1.6	-2.0	-1.6	-1.2	-1.1
<b>Total.....</b>	<b>-25.0</b>	<b>-26.6</b>	<b>-28.6</b>	<b>-30.8</b>	<b>-34.9</b>

Source: "The President's 1978 Tax Program," Department of the Treasury, Washington, D.C. and CBO estimates.

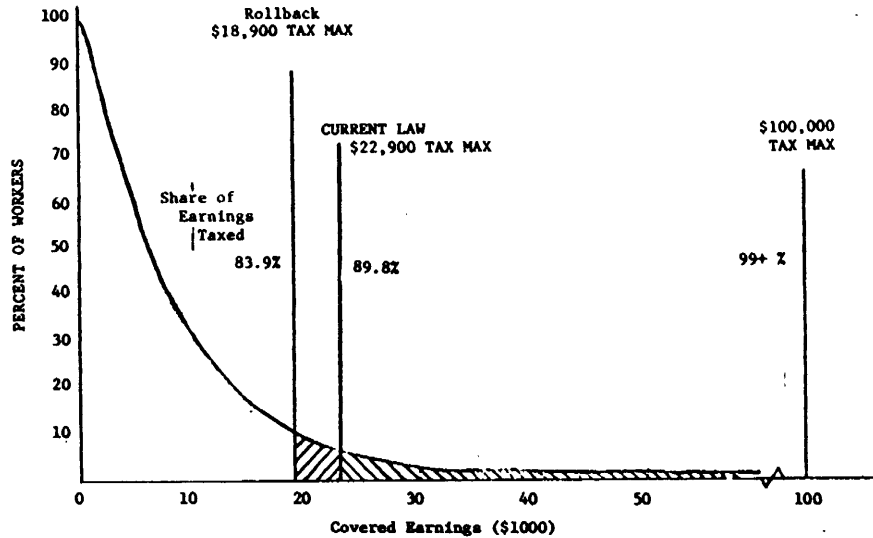
*Table 12.—Percentage Change from Current Law Costs of Various Benefit Options Over the Long Term*

Options:	Percentage change
Current law (90/32/15)-----	—
Wage indexing option A (43/43/43)-----	17
Wage indexing option B (66/38/29)-----	9
Wage indexing option C (57/33/25)-----	—5
Wage indexing option D (77/28/13)-----	—13
Price indexing (Hsiao formula)-----	—24
Change in treatment of spouse benefit:	
No dependent's or survivors' benefits (current wage indexed system)-----	—20
Earnings splitting (current wage indexed system)-----	—9
Earnings splitting and wage indexing option C-----	—21

NOTE.—These estimates refer to projected total benefit payments to the cohort born in the period 1934–36. The various wage indexing options are designated by the percentages in the benefit formula. For example, under current law the formula is 90 percent of the first \$180 of average indexed monthly earnings (AIME); 32 percent of the next \$905 of AIME; 15 percent of all AIME above \$1,085. In each option the AIME brackets remain the same, however.

CHART 1.

CUMULATIVE DISTRIBUTION OF 1979 EARNINGS  
 --Share subject to payroll taxes



**Rollback:**

Change in Liability  
 From rate change  
 From Tax Max change

☐  
 \$0 to \$-15  
 0 to -15  
 0

▨  
 \$-15 to \$-260  
 -15  
 0 to -245

▩  
 \$-260  
 -15  
 -245

Average reduction  
 Earners in Income group

\$10  
 90 million

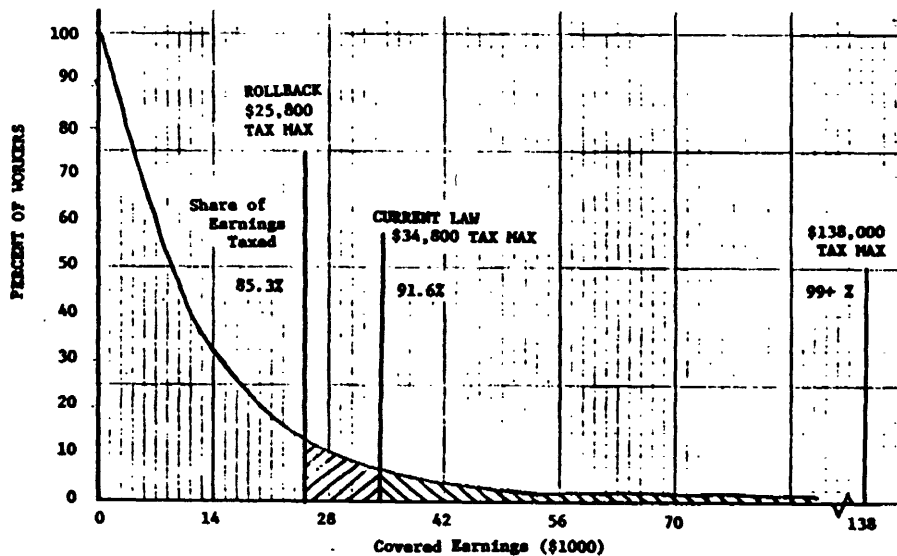
\$100  
 6.7 million

\$260  
 11.3 million

CHART 2.

CUMULATIVE DISTRIBUTION OF 1983 EARNINGS

--Share subject to Payroll taxes



Rollback to pre-1977:

	□	▨	▩
Change in Liability	\$0 to \$-103	\$-103 to \$-706	\$-706
From rate change	0 to -103	-103	-103
From Tax Max change	0	0 to -603	-603
Average reduction	\$70	\$305	\$706
Earners in Income group	98 million	11.2 million	7.5 million

TABLE 1.—1979 IMPACT OF PUBLIC LAW 95-216, COMPARED TO PRIOR LAW

	Earnings level		
	Up to \$18,900	\$18,900 to \$22,900	Over \$22,900
Workers affected (in millions)¹	90.0	6.7	11.3
Percent of total workers	83.3	6.2	10.5
Average tax increase per worker	+\$10	+\$100	+\$260
Range of tax increases	\$0-\$15	\$15-\$260	\$260

TABLE 1a.—1983 IMPACT OF PUBLIC LAW 95-216, COMPARED TO PRIOR LAW

	Earnings level		
	Up to \$25,800	\$25,800 to \$34,800	Over \$34,800
Workers affected (in millions)	98.0	11.2	7.5
Percent of total workers	84.0	9.6	6.4
Average tax increase per worker	+\$70	+\$315	+\$706
Range of tax increases	\$0-\$103	\$103-706	\$706

¹ Includes all workers, including those working part time and seasonally. The number therefore exceeds labor force estimates based on full-time equivalent year-round workers.

TABLE 2—CHANGE IN PAYROLL TAX LIABILITY FOR EARNERS AT DIFFERENT INCOME LEVELS UNDER VARIOUS PROPOSALS, CALENDAR YEARS 1979 AND 1983

Income level	Number of earners (millions)²	Percent of earners	Payroll tax increase (+) or decrease (-) for employees compared to current law			
			Rollback to pre-1977 law³	Elimination of HI and DI taxes⁴	One-third general revenue financing⁵	10 percent refundable credit⁶
<b>1979:</b>						
0 to \$18,900	90.0	83.3	0 to -\$15	0 to -\$340	0 to -\$421	0 to -\$116
\$18,900 to \$22,900	6.7	6.2	-\$15 to -\$260	-\$340 to -\$412	-\$412 to -\$511	-\$116 to -\$140
\$22,900 to \$30,000	11.3	10.5	-\$260	\$412	\$511 to -\$234	-\$140
\$30,000 to \$50,000					-\$234 to +\$546	
\$50,000 to \$100,000					+\$546 to +\$2,496	
\$100,000 plus					+\$2,496	
<b>1983:</b>						
0 to \$25,800	98.0	85.4	0 to -\$103	0 to -\$593	0 to -\$697	0 to -\$173
\$25,800 to \$34,800	11.2	9.6	-\$103 to -\$706	-\$593 to -\$800	-\$697 to -\$940	-\$173 to -\$233
\$34,800 to \$58,300	7.5	6.4	-\$706	-\$800	-\$940 to 0	-\$233
\$58,300 to \$100,000					0 to +\$1,668	
\$100,000 plus					+\$1,668 to +\$3,188	

¹ Includes all workers, including those working part time and seasonally. The number therefore exceeds labor force estimates based on full-time equivalent year-round workers.

² Rollback to pre-1977 law tax rates and wage base formula. This column also shows the tax increases resulting from the 1977 law if the signs in front of each number are reversed.

³ Eliminate taxes for HI and DI, but retain the 1977 law wage base, as provided in S. 2503 (Senator Nelson and others) and H.R. 10754 (Representative Mikva and others).

⁴ Reduce rates by about ¼, and increase maximum wage base to \$100,000 in 1979 and an estimated \$138,000 in 1983, as provided in S. 2501 (Senator Hathaway and others) and H.R. 10668 (Representative Burke and others).

⁵ Refundable credit against income tax liability equal to 10 percent of social security taxes paid. Variants of this proposal are contained in a number of recently introduced bills.

TABLE 3.—DISTRIBUTION OF TAX REDUCTIONS BY INCOME CLASS RESULTING FROM CARTER TAX CUT PROPOSAL, AND VARIOUS SOCIAL SECURITY TAX CUT PROPOSALS, CALENDAR YEAR 1979

[In percent]

Expanded income class <sup>1</sup>	Distribution of 1977 tax returns <sup>2</sup>	Distribution of 1976 expanded income	Distribution of current law tax liabilities	Distribution of total tax reduction from—					
				Carter tax cut proposal		Rollback to pre-1977 law	Elimination of HI and DI payroll taxes	One-third general revenue financing	Refundable 10-percent income tax credit
				With reforms	Without reforms <sup>4</sup>				
\$0 to \$5,000 .....	28.9	5.3	0.1	3.4	2.4	6.0	5.5	6.1	5.5
\$5 to \$10,000 .....	22.9	13.7	6.1	15.9	11.6	7.0	13.3	14.4	13.3
\$10 to \$15,000 .....	18.3	18.4	13.4	23.2	18.2	6.6	18.5	20.3	18.5
\$15 to \$20,000 .....	13.4	18.8	17.0	24.5	20.7	11.9	25.7	28.1	25.7
\$20 to \$30,000 .....	11.3	21.7	24.2	27.3	27.1	49.8	23.2	22.2	23.2
\$30 to \$50,000 .....	3.8	11.4	16.3	9.0	12.8	12.8	10.5	8.3	10.5
Over \$50,000 .....	1.4	10.7	23.0	<sup>5</sup> -3.3	7.2	6.0	3.3	0.6	3.3
<b>Total .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total 1979 individual tax cut (in billions) <sup>6</sup> .....</b>				<b>\$16.8</b>	<b>\$23.5</b>	<b>\$3.6</b>	<b>\$19.1</b>	<b>\$18.4</b>	<b>\$6.5</b>

<sup>1</sup> The Treasury tax model, upon which the income tax portions of this table are based, has not yet been updated to reflect 1978 income levels. Instead, it superimposes the proposed 1979 tax law on 1976 income levels. If 1978 income levels were used, many taxpayers would be shifted into higher income classes. In order to make the social security changes roughly comparable to the President's tax cut proposals, this table superimposes 1979 social security taxes on 1977 income levels.

<sup>2</sup> Expanded income is a broader concept than the "adjusted gross income" concept that appears on income tax returns and that the Treasury has used for tax analysis tables in previous year. Expanded income includes the untaxed half of capital gains, percentage depletion in excess of cost, depreciation in excess of straight line, and other "tax preference" items included in the minimum

tax; however, it excludes investment interest up to the amount of investment income. It therefore comes closer to "real" total economic income than does the usual adjusted gross income figure.

<sup>3</sup> All of the distributions in this table are based on income tax return filing units. As a result, dependents and second earners from high-income families will appear in lower income categories if they file separate tax returns showing low earnings.

<sup>4</sup> Includes only \$240 personal credit and rate changes.

<sup>5</sup> Tax increases.

<sup>6</sup> Includes only employee and self-employed share of social security tax cuts

Source: Treasury Department and CBO estimates.

TABLE 4.—COMPARISON OF MAJOR GAINERS AND LOSERS FROM SUBSTITUTION OF SOCIAL SECURITY PAYROLL TAX CUTS FOR CARTER ADMINISTRATION'S PROPOSED INCOME TAX CUTS

Gainers <sup>1</sup>	Losers <sup>2</sup>
Substitute elimination of HI and DI for Carter income tax cuts:	
All families except those in losers column.....	Families with earned incomes between \$10,000 and \$20,000 with 2 or more dependents.
Single persons with earned incomes below \$35,000.....	Single persons with earned incomes above \$35,000.
Substitute 33 general revenue financing, for Carter income tax cuts:	
All 2-earner families except for those in losers column.....	2-earner families with earned incomes between \$10,000 and \$15,000 and 2 or more dependents.
1-earner families except for those in losers column.....	1-earner families with incomes over \$30,000, 1-earner families with 2 dependents and earned incomes between \$9,000 and \$14,000.
Single persons with earned incomes below \$30,000.....	Single persons with earned incomes above \$30,000.

<sup>1</sup> Lower total tax burden with social security tax cut rather than income tax cut.

<sup>2</sup> Higher total tax burden with social security tax cut rather than income tax cut. Some additional families at higher income levels than those indicated may do worse under a social security tax cut if they have unusually large numbers of dependents.

TABLE 5.—TAX SAVING RESULTING FROM SOCIAL SECURITY PAYROLL TAX CUTS, COMPARED WITH SAVING FROM CARTER ADMINISTRATION INDIVIDUAL INCOME TAX CUT PROPOSAL FOR FAMILIES OF DIFFERENT SIZES AT DIFFERENT INCOME LEVELS, CALENDAR YEAR 1979

[In dollars] <sup>1</sup>

Adjusted gross income	Present law tax liability <sup>2</sup>	Additional tax saving (-) or increase (+) compared with Carter proposal		
		Tax change from Carter tax cut proposal <sup>3</sup>	Elimination of HI and DI (H.R. 10754)	One-third general revenue financing (H.R. 10668)
<b>Single person:</b>				
\$5,000.....	278	-99	+9	-12
\$10,000.....	1,199	-34	-146	-189
\$15,000.....	2,126	-21	-249	-313
\$20,000.....	3,232	-126	-234	-319
\$25,000.....	4,510	-245	-167	-184
\$30,000.....	5,950	-365	-47	+131
\$40,000.....	9,232	-488	+75	+644
\$50,000.....	12,985	-400	-12	+946
<b>1-person family; no dependents; 1 earner:</b>				
\$5,000.....	0	0	-90	-111
\$10,000.....	761	-147	-33	-76
\$15,000.....	1,651	-99	-171	-235
\$20,000.....	2,555	-165	-195	-281
\$25,000.....	3,570	-260	-152	-169
\$30,000.....	4,712	-322	-90	+88
\$40,000.....	7,427	-317	-95	+473
\$50,000.....	10,610	-260	-152	+806
<b>2-person family; no dependents; 2 earners (income divided 50-50):</b>				
\$5,000.....	0	0	-90	-111
\$10,000.....	761	-147	-33	-76
\$15,000.....	1,651	-99	-171	-235
\$20,000.....	2,555	-165	-195	-281
\$25,000.....	3,570	-260	-190	-297
\$30,000.....	4,712	-322	-218	-347
\$40,000.....	7,427	-317	-403	-575
\$50,000.....	10,610	-260	-564	-598
<b>2-person family; no dependents; 2 earners (income divided 70-30):</b>				
\$5,000.....	0	0	-90	-111
\$10,000.....	761	-147	-33	-76
\$15,000.....	1,651	-99	-171	-235
\$20,000.....	2,555	-165	-195	-281
\$25,000.....	3,570	-260	-190	-297
\$30,000.....	4,712	-322	-218	-347
\$40,000.....	7,427	-317	-311	-262
\$50,000.....	10,610	-260	-422	-113

See footnotes at end of table.

TABLE 5.—TAX SAVING RESULTING FROM SOCIAL SECURITY PAYROLL TAX CUTS, COMPARED WITH SAVING FROM CARTER ADMINISTRATION INDIVIDUAL INCOME TAX CUT PROPOSAL FOR FAMILIES OF DIFFERENT SIZES AT DIFFERENT INCOME LEVELS, CALENDAR YEAR 1979—Continued

[In dollars]<sup>1</sup>

Adjusted gross income	Present law tax liability <sup>2</sup>	Tax change from Carter tax cut proposal <sup>3</sup>	Additional tax saving (-) or increase (+) compared with Carter proposal	
			Elimination of HI and DI (H.R. 10754)	One-third general revenue financing (H.R. 10668)
<b>4-person family; 2 dependents, 1 earner:</b>				
\$5,000.....	-300	0	-90	-111
\$10,000.....	446	-312	+132	+89
\$15,000.....	1,330	-258	-12	-76
\$20,000.....	2,180	-270	-90	-176
\$25,000.....	3,150	-320	-92	-109
\$30,000.....	4,232	-322	-90	+88
\$40,000.....	6,848	-218	-194	+374
\$50,000.....	9,950	-80	-332	+626
<b>4-person family; 2 dependents; 2 earners (income divided 50-50):</b>				
\$5,000.....	-300	0	-90	-111
\$10,000.....	446	-312	+132	+89
\$15,000.....	1,330	-258	-12	-76
\$20,000.....	2,180	-270	-90	-176
\$25,000.....	3,150	-320	-130	-238
\$30,000.....	4,232	-322	-218	-347
\$40,000.....	6,848	-218	-502	-674
\$50,000.....	9,950	-80	-744	-778
<b>4-person family; 2 dependents; 2 earners (income divided 70-30):</b>				
\$5,000.....	-300	0	-90	-111
\$10,000.....	446	-312	+132	+89
\$15,000.....	1,330	-258	-12	-76
\$20,000.....	2,180	-270	-90	-176
\$25,000.....	3,150	-320	-130	-238
\$30,000.....	4,232	-322	-218	-347
\$40,000.....	6,848	-218	-410	-561
\$50,000.....	9,950	-80	-602	-283

<sup>1</sup> The estimated tax savings exclude the effects of reductions in the employer share of payroll taxes, as well as the effects of cuts in business income taxes.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> Assumes deductible expenses equal to 20 percent of income. Includes only \$240 personal credit and rate changes. The effects of the President's proposed tax reforms are omitted.

Source: Treasury Department and CBO estimates.

TABLE 6.—NUMBER OF TAXPAYERS WITH LARGER TAX CUT UNDER SOCIAL SECURITY TAX CUT PROPOSALS THAN UNDER CARTER INCOME TAX CUT PROPOSAL, BY INCOME CLASS (1979 LAW)

Adjusted gross income class:	Number of returns (thousands)	Percent of returns	Average tax cut under Carter proposal without reforms	Percent of taxpayers with larger tax cut under	
				Elimination of HI and DI	One-third general revenue financing
\$0 to \$5.....	24,728	27.8	\$84.0	74.5	78.2
\$5 to \$10.....	19,300	21.7	\$117.0	58.9	65.8
\$10 to \$15.....	15,145	17.0	\$194.0	56.3	66.0
\$15 to \$20.....	13,211	14.8	\$307.0	46.1	71.3
\$20 to \$30.....	10,703	12.0	\$485.0	14.3	65.9
\$30 to \$50.....	4,433	5.0	\$678.0	8.3	63.6
\$50 to 100.....	1,182	1.3	\$927.0	4.7	50.4
\$100 plus.....	298	.3	\$1,509.0	3.4	49.0
<b>Total.....</b>	<b>89,000</b>	<b>100.0</b>	<b>\$282.0</b>	<b>52.1</b>	<b>70.0</b>
<b>Total calendar 1979 tax reduction for individuals (in billions).....</b>			<b>\$23.5</b>	<b>\$19.1</b>	<b>\$18.4</b>

Senator NELSON. The hearings will resume tomorrow morning at 9 o'clock.

[Thereupon, at 1 p.m., the subcommittee recessed, to reconvene at 9 a.m., Thursday, April 6, 1978.]



# SOCIAL SECURITY FINANCING

THURSDAY, APRIL 6, 1978

U.S. SENATE,  
SUBCOMMITTEE ON SOCIAL SECURITY OF THE  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to recess, at 9:05 a.m. in room 2221, Dirksen Senate Office Building, Hon. Gaylord Nelson (chairman of the subcommittee) presiding.

Present: Senators Nelson, Danforth, Curtis, and Dole.

Senator NELSON. This morning the Finance Subcommittee on Social Security begins the second day of hearings. Yesterday the committee received testimony from Secretary Blumenthal, Leon Keyserling, and Alice Rivlin.

This morning, our first witness is Mr. Barry Bosworth, Director of the Council on Wage and Price Stability.

Mr. Bosworth, your statement will be printed in the record in full as if read. You may present it however you desire.

## STATEMENT OF BARRY P. BOSWORTH, DIRECTOR, COUNCIL ON WAGE AND PRICE STABILITY

Mr. BOSWORTH. Thank you, Senator. I thought I would just summarize my remarks.

First, I think it is important to realize how the different ways that the Government policies, including tax policy, can impact importantly on the rate of inflation. Normally, people believe that the Federal budget is a good measure of the Government's impact on the economy.

Unfortunately, in the last decade or so, the truth is that the Federal budget is almost no measure whatsoever of what the Federal Government is doing to the economy. This is particularly true in the area of inflation because, while we normally think of total spending and total tax revenue, the Federal Government also affects prices and costs in the private sector in a variety of other ways. First, through its regulatory actions, the Federal Government affects costs for environmental health and safety and similar type regulations that raise costs in the private sector and therefore contribute to price increases.

There is a vast array of other Federal Government regulatory activities. Administrative actions of the Government and the Congress frequently affect the rate of inflation in ways that are not measured well in the budget.

Another area where this shows up is tax policy. It is just not the total level of taxes that matters in terms of the Federal Government's

impact on the economy, but also the composition of those taxes and the fact that different types of taxes have different impacts on the economy.

Specifically, this is true with respect to the question of social security taxes.

Secretary Blumenthal testified before you yesterday and outlined the administration's opposition to any current changes in the social security taxes. I would like to take this opportunity in a more general context to discuss the more technical aspects of how social security taxes can have a very important impact on the rate of inflation.

Principally, it seems to me, the issue comes down to the realization that increases in social security taxes increase the cost of producing goods and services. Employment taxes raise unit labor costs in the private sector and these unit labor cost increases will be passed forward in the form of higher prices.

Social security taxes lie between several extremes. The first extreme is that some taxes—such as sales tax increases—are very obvious to people. Higher sales taxes are passed forward to the consumer in the form of higher prices.

Most existing economic analysis, however, argues that income taxes placed on individuals are not likely to be passed forward in the form of higher prices. Social security taxes lie in between those two extremes.

The employee portion of the social security tax is very much like an income tax. It is borne by the worker and he pays its cost. His after-tax income is reduced when such taxes are increased and unit labor costs are unchanged. Therefore, prices tend to be unchanged.

But the employer portion of the tax is a cost of doing business. It will not be absorbed by employers, and to argue as some people have that the employer portion of the social security tax is borne by business is to imply that since World War II one would have expected to see profit rates go to zero in this country.

It seems obvious instead that the employer portion of the tax is simply passed forward to consumers, borne by the worker in higher prices.

In the context of some of the recent discussions of social security tax changes, a large number of different proposals have been put forward. I think some of the principles of the magnitude of the impact can best be illustrated by referring to a specific version, one that you yourself have put forth together with some other Senators, and that is the proposal that health insurance and disability insurance be divorced from the social security system.

This proposal, if it were financed through general revenues, would cost approximately \$30 billion.

Now, in trying to examine the inflationary impact of that change in social security taxes, half of the \$30 billion would be in the form of employee taxes, and, as I said earlier, changes in the employee portion of social security taxes will have no inflationary impact one way or the other.

Senator NELSON. May I ask a question?

There are economists who argue that any cost imposed on the employee results in the long pull, short pull or both, in an increase in

wages, that if they were not paying social security tax they would be negotiating a higher wage; if they were not getting health insurance, they would be negotiating a higher wage.

What is your view about that?

Mr. BOSWORTH. There is a distinction to be made. Normally, the term referred to is who pays the burden of the tax in real terms. In the process, the worker will ultimately pay the burden of a social security tax increase, but if he could have had his wages raised simply because the Federal Government increased his taxes, then he should have increased his wages and kept the money before the tax was ever imposed.

In all of the economic analyses that I have seen, they have always found that the employee portion of the tax does not lead to a higher wage increase for him. He is not able, just because taxes have gone up, to go out in the market and demand a higher wage rate. The only way he can really do that is by saying that, since my after-tax income has gone down, I am going to refuse to work; I will withdraw my supply of labor, the supply of labor will decline and therefore my wage base will go up.

All the studies show that the decision to work or not to work is very insensitive to wage rates.

Senator NELSON. There is a big gap between the decision to work or not to work and that is in the negotiating process, all kinds of contracts are negotiated in which the employees agree that they will take this fringe benefit and that fringe benefit as a part of the bargain that they negotiate, and if they did not get that fringe benefit, they are asking for 10 cents an hour more for salary.

Very frequently they say, all right, we take this health benefit and that benefit and our wage demand will be lowered proportionately.

It does not seem to me that you can argue that there is no relationship at all. If there were no health benefits, no social security, it seems to me in the long pull that they will be getting more money, more hourly wage rate as a substitute for what they did not get in health benefits, retirement benefits, and so forth.

Mr. BOSWORTH. They would get a higher hourly money wage. For example, assume we eliminate the pension fund. Then the worker would need a higher wage, so he could contribute to his own pension fund. The question is, what happens to the employer's unit labor cost, the cost of production, the amount of money paid by the employer? Simply because social security taxes go up, the employer on the other side of the bargaining table is not willing to say that, in addition to the increase in social security taxes, I am now going to pay a higher money wage to my workers to compensate them for lower take-home pay.

From the employer's point of view on the other side of the bargaining table, it is irrelevant where those cost increases come from. If social security taxes go up, he says that he can afford to pay less directly to the worker. The worker, on the other hand, says that my take-home pay has gone down. I would like to get a higher wage to replace that.

A bargain will be struck in between those two. How much of the social security tax rate will be recovered by the worker will depend on the strength of his bargaining power.

The point is, most of the empirical literature suggests that the worker will not be able, and in the past has not been able, to recapture a

general tax increase in the form of higher money wages. The empirical evidence does not demonstrate that when social security taxes have been increased, the employee has been able to negotiate a higher money wage.

Senator NELSON. I must say that it is hard for me to believe that it is not a factor. If there were no private retirement plans, no health insurance plan, no social security, none of these plans, are you saying that the wages in the country would still be just the same? That just isn't so.

Mr. BOSWORTH. Compensation to the employee paid by the employer is a part of the cost of production. One could argue the same.

Senator NELSON. One could argue that. After all, when you look at the negotiating process and they end up with a package which increases the package that costs 50 cents an hour and 25 percent in fringe benefits and 25 percent or 50 percent of that 50 cents is fringe and 50 percent is increase in wages, your argument is that if they did not get the fringe benefits they would only get 25 percent?

Mr. BOSWORTH. No; just the opposite. I am saying that if they did not have the fringe benefits they would get money wage increases exactly equal to that amount but the total payment by the employer would be no different. Turn it around to the other side and look at it from the employer's point of view. What does he care?

Senator NELSON. If that is what you are saying, I agree with you. I did not understand that that was what you are saying.

That also means, then, that with respect to the increase in social security, you have to buy the whole package then, the increase in the cost of social security to the employee is going to be negotiated back. That takes away their purchasing power. They want to keep their purchasing power, they will fight to get it back. Somewhere in the process they get it back. Therefore, it increases the cost of labor, that portion of social security that the employee pays also increases the cost of labor and also contributes to the increased cost of the product.

Mr. BOSWORTH. He will try to get it and he will get a portion of it back. The portion that he gets back, you are absolutely right, means higher prices.

My only point was saying that on the portion paid by the employer, that adds one for one to unit labor costs. All the employer taxes go right forward into higher prices. As for the employee portion, initially it reduces his money wages. He then starts to get a portion of that back. The portion that he gets back, as you say, increases unit labor costs and is passed forward into inflation.

How big is that proportion? In the past when social security tax increases have been imposed, that proportion has been relatively small. On the employer side it is 1.0; on the employee side it is somewhere between 0 and 1 and it appears to be fairly close to 0.

I am saying that most of the inflationary impacts of these tax changes are associated with the employer portion. In addition, there is some further inflationary impact from the employee portion, but it is smaller. The coefficient is not 1.0.

Senator NELSON. I do not know how one would figure that. It would depend upon the negotiations of a particular employer or employee in a particular circumstance. The fact of the matter is, historically in this country, the real purchasing power of the worker has con-

tinued to go up. In the long pull, he is increasing his real purchasing power.

So, whatever is happening to his income, he is negotiating successfully enough to increase his real purchasing power and somewhere in there is that increased cost of social security to him or whatever else, because he is negotiating for take-home pay and, if I look at the schedules right, he is managing to increase his real purchasing power, so anything that is happening to him is getting into that bargaining and coming back in his pocket.

Therefore, it may not, in 1 year. Therefore, in the long pull, whatever he is paying for social security he is getting back. That is added to the cost of labor and adding to the cost, it seems to me, of the product, just as the employer side of the payment of social security is, is that not correct?

Mr. BOSWORTH. To some extent, but, in the long run, he does not get it all back.

Senator NELSON. All right. I do not know whether he does or not. He is getting something back, because he is staying ahead. He is increasing real purchasing power. Those who are not organized may not be, those at the minimum wage are not. They are always behind.

But those who have been organized—

Mr. BOSWORTH. Let me try one other way to illustrate the difference. All I am trying to say is that the employee tax is very much like an income tax. To suggest that every time workers' income taxes and social security taxes have been increased, they simply managed to pass them forward into higher wages and have not had their after-tax income reduced is simply not true. Their after-tax income is sharply reduced by these tax increases. They have not been able to negotiate wage increases to offset the effect of increases in social security taxes and income taxes on their after-tax income. It has reduced their take-home pay. It has fallen back on them. They have not been able simply to go to the employer and ask for more money. It is not that easy to get your employer to give you more money and it is not all passed forward. It is passed backward onto the worker.

Senator NELSON. If that were, in the long pull, correct, how does he increase his real purchasing power?

Mr. BOSWORTH. Since 1969 the American worker has not been able to increase his purchasing power.

Senator NELSON. I am talking about the long pull. As a matter of fact, the worker, in the statistics that I have looked at on the average, has had an increase faster than the inflation rate.

Mr. BOSWORTH. Yes; because normally the Federal Government does not increase income taxes and social security taxes so rapidly that all of the growth in productivity is eaten up. In the last decade, however, both income taxes and social security taxes have gone up almost as rapidly as productivity and workers have had almost no gain in after-tax real income.

Senator NELSON. That is right. There has been rapid inflation. Nevertheless, if my memory is correct, looking at it from 1969 up to a year ago the workers wages in this country rose slightly higher more rapidly than the increased cost of living, and this has been a bad period for him because inflation has been very rapid.

All I am saying is that in the long pull he has increased his real purchasing power and, somehow or another, everything that costs him anything is in that negotiating picture. It has got to be. He is looking at his take-home pay.

I am not saying it is one for one the same year. I think that it is a myth to suggest that somehow or another you can increase the tax on the employee and never, in any way, does he ever get it back. He gets it back—those who can bargain get it back in the long pull and it becomes part of the cost of doing business, part of the cost.

It is not one on one the same.

Mr. BOSWORTH. It is not even one on one in the long run. The notion that income taxes can simply be passed forward in the form of higher wages for workers and their after-tax income is not reduced by Government taxation is wrong. Even in the long run, while I admit that some workers in some places get mad and they push to get a wage increase to offset a tax increase, the notion that workers can just avoid tax increases by passing it on forward by getting offsetting wage increases—the notion that that number is anywhere near one for one in the long run—is very misleading. Workers pay those taxes. They cannot get wage increases in the long run that anywhere near compensate them for the magnitude of the taxes.

Senator NELSON. Everybody pays their taxes. Everybody's real purchasing power has gone up in this country. Across the board, there is a whole lot more purchasing power by the people in this country, in little towns, big towns and everywhere, than when I was a kid. We have more disposable income, more real income, can buy more goods, better houses, more cars, better education, more clothes. How did they do it?

In the long pull, everything goes into the package and all of the people are getting more purchasing power and to say that a factor in that is not an increase in income taxes, social security taxes, and that they are getting it for some other reason strikes me as nonsense. You would have to produce a whole lot more evidence to tell me how that happens than I have ever seen.

Mr. BOSWORTH. Senator, somehow it seems to have gotten turned around here. I have never heard it suggested, I guess, that individuals just got after-tax income. They raised their after-tax income and pushed the cost of income taxes and social security taxes forward onto others.

The growth in workers' real incomes is a function of productivity growth. Normally, Federal income taxes and other taxes do not rise rapidly enough to eat up all of the worker's increased income, so he finds that there is some growth in after-tax income. In recent years, however, those tax rates have risen more rapidly and productivity growth has slowed down. Thus, gains in real incomes after taxes have been small.

You are right to suggest that, to some extent, those tax increases have made him mad, and he has gone out and tried to get a higher wage increase. To some extent those increases in personal income taxes and social security taxes are pushed forward in the form of higher prices.

But the worker cannot push all of those forward. He pays that tax largely by himself.

Senator NELSON. I suppose it is not a very productive dialog. The way the worker operates through his union is to look at his pocketbook and he sees his property tax go up, doubled in many places in the last 10 or 12 years, so he has less money and he sees his social security taxes taking more out. And he sees prices going up in the grocery store. All of those are factors in the bargaining situation. You cannot say that the property tax is a factor, the food cost is a factor, but the increased cost of taxes on social security, that is not a factor at all. The economists set that aside. He is not in bargaining about that. He is bargaining about the whole picture and in the picture is the increased cost of social security. To suggest otherwise is nonsense, and I would like to see you isolate that in your theory about how he does not get his taxes back.

I think you economists talk a lot of nonsense, but I would like to see that point proven. You guys remind me of Truman when he said if you took all the economists in the world and laid them end to end they would all point in a different direction.

Go ahead. I just thought to say that the increase in the social security tax does nothing to affect the cost of the product does not make any sense.

Mr. BOSWORTH. I am sorry.

Senator NELSON. Almost none at all. One to one for the employer, you said and it does not affect the price of the product, but almost immeasurably—

Mr. BOSWORTH. I do not want to pursue the dialog. I am trying to put various types of taxes on the continuum. I think sales taxes, because they are so clearly a cost of doing business and associated with the level of production are about one for one. An increase in sales taxes will be passed through in higher prices. Income taxes tend to lie at the other end of the continuum. It is harder to pass those forward. Not zero, I agree with you. Increased income taxes make workers push to try to get a wage increase.

The impact of that on prices tends to be small. It tends to be closer to zero. In between that lie things like excise taxes—which can be avoided by switching your consumer purchases—and social security taxes. Within the social security taxes there are two components: The employer portion and the employee portion. The employer portion is relatively easy to push forward in the form of higher prices to consumers. The tax goes up, the cost of doing business goes up, and the employer raises his prices for the goods he charges in a fairly direct action.

But the employee part of the tax initially goes backwards. Then, as you say, he tries to increase his wage demands. The impact of that on prices simply tends to be smaller.

I am not trying to say it is zero: I do not think you are trying to say it is one. But if we establish a continuum on how big that effect is, then when you try to take a social security tax increase and try to estimate its effect, we have tried to take something like a \$30 million change in social security as an illustration. Fifteen billion dollars of that would be paid by the employer. That is about 1 percent of unit labor costs in this country. It would be passed forward in the form of higher prices.

A 1-percent increase in unit labor costs would be about a 1-percent increase in prices.

Second, though, when prices go up for the same reason that you were talking about earlier, workers will, because of the higher cost of living, try to get a higher money wage in future negotiations. Over future years, those tax increases will have a second, increasing inflationary impact on the economy as they lead to higher cost of living adjustments and wage contracts and others that again push up unit labor costs and again lead to higher prices.

Therefore, in the statistical measures that we have tried to get by looking at past changes of these types in prices, a social security tax increase has a direct impact on the economy that is inflationary and the second impact is to roughly double that impact after about 2 years.

I do believe that the employer portion of that is more inflationary than the employee portion, without saying that one is zero and one is one.

Senator NELSON. What did you say the increase is this year? I have forgotten. Thirty billion dollars?

Mr. BOSWORTH. Yes, if you took, as an example, the \$30.1 billion, which is close to your proposal for taking out the medical care and disability insurance out of the social security program.

Senator NELSON. All right. Now that we have that straight, go ahead. I interrupted you at some point. Had you finished?

Mr. BOSWORTH. Yes.

Senator NELSON. I thought I had interrupted what you were saying. Did I understand you to say that \$15 billion represented 1 percent of the labor costs?

Mr. BOSWORTH. That would be about 1 percent of the unit labor costs assuming, as you have said earlier, that not quite all of that can be passed forward immediately.

Senator NELSON. I thought you were simply saying that it was \$15 billion.

Mr. BOSWORTH. I am taking \$30 billion in social security. Half of that would be the employee portion. Half of that would be the employer portion, and half of \$30 billion is \$15 billion. Fifteen billion dollars divided by total labor compensation in this country is about \$1.3 billion. In other words, \$15 billion is about 1 percent of total unit labor costs.

Once unit labor cost goes up 1 percent, prices will rise in a parallel fashion at 1 percent, so the direct inflationary effect of that proposal is 1 percent on the price level.

But when prices go up, for the same reason that you were mentioning earlier, workers try to get that cost of living back into the wage increases and we get a second round of inflationary impact that would about double the impact after 2 years.

Senator NELSON. Double?

Mr. BOSWORTH. Yes.

Senator NELSON. After 2 years?

Mr. BOSWORTH. Right.

Senator NELSON. Thank you very much. I appreciate your taking the time to come and testify this morning.

[The prepared statement of Mr. Bosworth follows:]



**STATEMENT OF BARRY BOSWORTH DIRECTOR OF THE COUNCIL ON WAGE AND PRICE STABILITY**

My name is Barry Bosworth. I am Director of the Council on Wage and Price Stability in the Executive Office of the President.

My purpose in appearing before your subcommittee is neither to support nor oppose any specific Social Security tax measure. Treasury Secretary Blumenthal made clear in his appearance before your subcommittee yesterday the Administration's opposition to changing the Social Security tax formula this year.

The Administration did propose some financing changes last year as part of its comprehensive review of the tax structure. Congress, however, did not favor such action. Thus, when the Administration developed its overall fiscal policy in January, it did so on the assumption that the present method of financing would not be changed. It seems inappropriate now to suddenly reverse that course.

The Administration's economic program was put in motion just a little over two months ago as a comprehensive plan for 1978 and 1979. It should be given time to work. Beyond this, the Administration feels that proposed income tax cuts will adequately compensate for the short term impact of higher payroll taxes.

I would like to discuss briefly the effect of taxes on inflation.

Government tax policy can have an important influence on the level of prices. And, thus, changes in tax laws, at times, have had significant impacts on the rate of inflation. The measurement of this inflationary impact is complicated by the fact that different types of taxes affect prices in different ways. The issue is closely related to the question of who bears the burden of a tax. The impact of some taxes is felt directly by the individual or firm who pays the tax. In other cases the tax burden may be passed forward in the form of higher prices—or backwards in the form of lower wages to workers or lower incomes to the owners of capital or land.

At the one extreme, for example, general sales taxes are assumed to be passed forward in the form of higher prices. They represent a cost of production just like raw materials or labor payments, and consumers cannot avoid a general sales tax by shifting their purchases. An excise tax on a specific product, on the other hand, will not be fully reflected in higher prices, if consumers respond to the initial price rise by reducing their demand and lower production reduces the costs of supply. If consumers are not sensitive to prices (as in the case of tobacco and alcohol) the tax will still be largely passed forward in higher prices.

On the other side, it is believed that the burden of the general income tax is borne largely by the person who pays the tax and that it is not reflected in higher wages or taxes. The only means of avoiding such a tax is by reducing one's income. But most studies find that the choice between work and leisure is not very sensitive to different wage rates. If a person is able to pass the tax forward by increasing the price he charges for his services, he should have and would have done so in the absence of a tax. If a tax is placed on income from a specific occupation, of course, the tax would be passed forward. This is because individuals would shift out of that occupation, reducing the supply, until the wage was raised to a level that yielded an after-tax return equivalent to other occupations.

These general illustrations can be used to examine the impact of the social security tax. The employee portion of the tax is very similar to the income tax and is paid by the worker. Since the vast majority of workers are now covered by the tax, it can only be avoided by withdrawing from the workforce. It might be argued that some labor groups have considerable market power and that they might demand compensatory wage increases. But the empirical evidence does not support such a view. Reasonably, if they had the power to obtain an even higher wage, they should have exercised that power to the maximum, even in the absence of a tax increase.

The employer portion of the tax, however, is quite different. It increases employment costs and the marginal cost of production in precisely the same fashion as a general tax increase. It will be largely reflected in higher prices since consumers cannot shift their purchases toward goods whose costs of production are not affected by such a general tax. It will, of course, affect the composition of consumer purchases as the price increases will vary with the importance of labor costs in total production costs for individual products.

If the employer tax were not treated like any other employment cost and passed forward in higher prices, it would be borne by the employer himself. But, this would imply a secular decline in the profit share of GNP as social security

taxes were increased during the postwar period. Such a secular decline has not occurred.

Initially, the burden of higher employer taxes is reflected in higher consumer prices. But, this does not fully measure the burden of these taxes. They do, in addition, raise the price of labor relative to capital. Thus, over the longer term, business firms will seek to reduce their costs by shifting toward methods of production that substitute capital for labor. This reduces the demand for labor and, thus, wage rates. Several studies indicate that, over the long term, the burden of both the employer and the employee portion of social security taxes is borne by the worker. Today, the cost of social security adds over 12 percent to employment costs. By 1981 it is scheduled to reach over 18 percent. Costs of this magnitude have a significant influence on hiring decisions.

The impact on inflation of a social security tax reduction can be made more concrete by outlining the impact of a specific tax reduction. Senator Nelson and others have suggested that health and disability insurance be divorced from the social security tax system and financed out of general revenue. This would imply about a \$30 billion reduction in social security taxes.

First, if this were concentrated in the form of employee tax reductions, there would be little or no impact on prices. But, if we assume that the reduction is applied equally to the employer and employee portions of the tax, employment costs would decline by about \$15 billion in the private nonfarm sector. This would reduce unit labor costs by about one percentage point.

Existing studies of changes in prices and unit labor costs strongly suggest that the reduction in prices would be proportionate to the reduction in unit labor costs and that the adjustment would be largely completed within one year. Thus prices would also decline by one percent.

But, this would not be the end of the matter. Changes in prices lead to compensatory adjustments in wages through formal cost-of-living adjustments in labor contracts and informal adjustments in other wages. These wage changes impact back on prices. We estimate that these indirect influences approximately double the impact on the price level of an autonomous price change within a two year period. Thus, a \$30 billion tax cut would lower the price level by about two percent over a two year period.

Senator NELSON. Our next witness is Mr. Robert Ball, former Commissioner of Social Security.

Your statement will be printed in full in the record and you may proceed in whatever way you desire.

**STATEMENT OF ROBERT BALL, FORMER COMMISSIONER OF SOCIAL SECURITY AND SENIOR SCHOLAR, INSTITUTE OF MEDICINE, NATIONAL ACADEMY OF SCIENCES**

Mr. BALL. Thank you, Mr. Chairman. I do have a rather long statement here and I will select portions of it with your permission.

I would like to spend just a few minutes—before focusing on what I know is the main concern of the committee at this time, the financing of Social Security—to emphasize the benefit aspects of the 1977 amendments. It seems to me that, though the press and the radio and television have done a very extensive job in getting across to high-paid workers how much more they will have to pay into Social Security—I might say, with some exaggeration—I really do not believe the country recognizes how good social security benefits now are.

My impression is that people think they are paying for social security benefits that will be at about the level being paid today, and that, of course, is far from the truth.

Under the 1977 amendments, as you know, benefits will rise in relation to the general level of living in the country. If you take workers who are today in their early 40's—people who will be retiring around

the turn of the century—you get benefits for the average worker, now earning around \$10,000, about \$15,000 when he first retires. If he has a wife who is entitled, it would be half again as much for the couple. So they would have a benefit in the year of \$22,500.

Senator NELSON. What do you mean, a benefit of \$22,500?

Mr. BALL. Per year, for a worker now getting \$10,000 on the assumption that wages will rise over this period about 5¾ percent a year.

Senator NELSON. I was going to say I think you make a very important point. People look at the wage, for example, the wage base. If you turned it around and said all right, we will keep your taxes exactly the way they are and leave the wage base at \$16,500, those people who retire 40 years from now would have about enough income to live 1 day, and that is all.

As a matter of fact, the computations we put in the record, which are startlingly dramatic, indicate that if you have a 5.75 percent increase in costs, productivity, inflation by the year 2050, that workers who are making \$10,000 today will be making \$650,000 at a 5.75 percent increase.

It doubles about every 12 years and you are right there at \$650,000. If you did not increase the base people would be retiring with a retirement system that would support them 2 or 3 days out of the month 25 years from now.

Mr. BALL. Mr. Chairman, it is not just a matter of those above the base, but of people below the base, too. As they have higher wages the system now automatically keeps their benefit protection up to date so that at the time of their retirement, the benefit will be about the same proportion of wages then current, as benefits are of wages now current.

This is, I think, a very important accomplishment of the Congress and the administration to get these benefit changes this last year. It has made the American social security system, in my opinion, one of the best four or five systems in the world.

Workers can now count on retiring with a combination of social security and for those who are fortunate enough to have a private pension supplementation, that will provide a very reasonable level of retirement income. What was done in the 1977 amendments on the benefit side needs a lot more emphasis.

My own view is that much of the adverse reaction to higher contributions that we are hearing about from higher paid workers is partly, at least, due to the fact that they do not understand the kind of a system that they are now paying for, so I would just like to stress that aspect of it in the beginning, Mr. Chairman—before we get to the question of financing.

I attached to this statement a table which indicates—these are estimates done by the office of the actuary, Social Security Administration based on the quite reasonable assumption of assumptions of 5¾ percent average increase in wages—what benefits people will get who are low wage earners, average earners and higher paid by the year 2000—that is, people now in their early 40's, ones who are now paying in.

Senator NELSON. Where is that?

Mr. BALL. Table No. 1, projected benefits for persons retiring at age 65 in selected years. I was talking about this last column, the year 2000. As you see, the low wage earner, by that time, would have for

himself—that is just a single person, not a couple—he or she would have a benefit of about \$9,500. The average worker, almost \$15,000, and the higher paid, \$21,500.

Then, a couple would have half again as much.

These are the same percentages of wages at that time as for those who will retire in a few years under the new wage indexing system; it is the same percentage. I am not indicating that the Congress went overboard and provides for fantastically high benefits, not at all. What Congress did do was stabilize the wage-benefit relationship so that people looking ahead can count on—in retirement, or in the case of disability, or for their families in the case of death—getting the same proportion of earnings that are current later on as people will be getting under wage-indexing in the next year or two.

And that turns out to be a level of benefit which I do not think the American people understand. I think that what they are thinking about when they think of Social Security are the relatively small dollar amounts that are being paid now and they are thinking, gee, look at all of the money I am going to pay in and all I am going to get back is \$200 or \$300 a month.

So that was the first point I wanted to make, Mr. Chairman.

Second, it seems to me that it was also a very major accomplishment of the Congress and the administration to restore the financial integrity of the Social Security Administration. That, too, was accomplished by the 1977 amendments. Now, many of us wanted those provisions to be somewhat different than they turned out to be. Some did not want the wage base increases at all, or to be as high as they were. Some wanted a higher contribution rate, some less.

Personally, I supported the proposal that the President made. But in the nature of things, it was impossible to develop a proposal that everybody likes, and I do not think it takes away anything from the accomplishment of the Congress in restoring financial integrity to the system to say that the plan adopted probably fits very few people's idea of the absolutely best possible financing plan. It was, however, a well thought through and carefully designed plan that has accomplished the purpose of reassuring people that for the next 50 years the cash benefit programs under Social Security are fully financed, according to the official cost estimates, which, I happen to think, are somewhat on the conservative side.

This is what is important—that the Congress did act in restoring confidence in the financing—there are bound to be differences of opinion about exactly how this was done.

I have put in my statement, Mr. Chairman—I do not want to take up too much of your time with the detail of it—on page 8 a demonstration that the contribution increases between now and 1984 for most workers are really not very great.

For instance—this is in table 2 attached to the statement—take the \$10,000 a year worker, who is about the average worker today. He will pay \$8 a year more in 1979 than under the old law, and then he will pay \$8 a year more in 1980 than under the old law, and \$35 more in 1981 and \$40 more in the period 1982 to 1984—that is \$3.33 a month more for the average worker.

Let me skip to the higher paid where the protest is coming from. And I will start with the \$20,000 worker. Now, because of the wage base increase that is scheduled in 1979, that \$20,000 a year worker in the next year will pay \$82.55 for the year, more than under the old law. But then, in 1980, it will only be \$16 more than under the old law, because the old law would have caused the wage base to go up anyway, and in 1981, \$70 more and in 1982, \$84.80, which is \$7.07 a month.

It is the very highest paid group, workers up in the \$30,000 to \$40,000—less than 10 percent of the earners in the country where the 1977 amendments do have a significant effect. It is not true though, that social security taxes were tripled by the 1977 amendment as has often been stated.

That, of course, is just not so. They were not tripled by the 1977 amendments. The situation is that a worker who is earning \$42,600 or more by 1986—

Senator NELSON. \$42,000?

Mr. BALL. \$42,600 by 1986. It is true that such a worker will pay \$3,045.90 under the official estimates as compared with the \$1,070.85 he is paying this year. Now, that is true. But a very large—

Senator CURTIS. May I interrupt, sir?

Mr. BALL. Yes.

Senator CURTIS. How much of that increase is due to the 1977 act and how much was already built into the system?

Mr. BALL. Well, under the system as it was, his payment would have gone to \$2,012.40, without any change in law at all, and the rest of the increase, roughly \$1,000, is as a result of the 1977 amendments. This increase arises because more of his earnings will be included for both tax purposes and benefit-credit purposes. He will get both. It is not just a tax; he also gets additional benefit credit.

Now, the way retirement systems financed by a percentage of payroll always work is that if earnings go up, the dollar amount of contributions to the retirement system goes up. Just take the Civil Service Retirement System for Federal employees. In 1977, the highest paid civil servant was paying \$2,772 a year, but after—

Senator NELSON. What year?

Mr. BALL. In early 1977, before March.

Senator NELSON. And what level?

Mr. BALL. The maximum civil service grade, 18. I have forgotten exactly what the salary was then, but this figure is 7 percent of it. The maximum earner was paying \$2,772 in early 1977, but in March of 1977, as a result of pay raises, the maximum went up, to \$3,325. The maximum earner under civil service will get more protection and he will pay more.

I do not see that the 1977 amendments to social security which apply only the same flat percentage rate to higher paid workers that is paid by lower paid workers constitutes a sufficient reason for the strenuous reaction reported in the newspapers and on the radio and television.

First of all, it is not anything like a three times increase. It is much smaller than that, and the big increases are for less than 10 percent of the earners, and all these high-paid earners are being asked to do is pay the same flat rate that lower paid workers pay.

That does not seem to me to be a great injustice.

Senator NELSON. Let me say that I agree with you. The benefits have gone up. I think it is a good system and I support the tax increases that were imposed, as long as you retain in this system the benefits, as well as hospital insurance and disability insurance. This method of taxes to pay for it is not the one I would have selected. I did support the administration's differential on the employer's side. Nonetheless, it is still a good, sound financing system.

However, I think you are correct in that there is very little understanding by most people of what the benefits are and, in fact, I would guess what causes shock among many is that they did not even know what was in the 1972 law.

Mr. BALL. Yes.

Senator NELSON. In other words, that did raise the base projected into the future, so that they did not know what was in the 1972 law and then suddenly they are looking at the 1977 law, and people have a difficult time imagining the rate of increase in salaries and wages in this country.

And if you sit down and explain to them that if you remain at the same base, \$16,500 with a maximum tax you have a very little benefit coming to you in the year 1995, and you might as well not have a system at all.

I think it is a lack of understanding. Both sides, both the executive branch and Congress should have acted at least 1 or 2 years earlier. So we had to act very quickly to effect that fund, and there was not enough educational time for a good understanding by the Congress, let alone the public, on the whole issue. Because it is a complicated business and many members of the Congress themselves did not have a chance to study the whole issue in depth, I have had the question raised with me about why raise the base so high.

When you point out where wages and salaries are going at 5 percent per year and the necessity for raising the base, once you have understanding, you usually have agreement on it.

Mr. BALL. I think that is right, Mr. Chairman.

There is one side issue here I think is worth commenting on, because you might want to consider doing something about it, regardless of the fundamental decision on financing.

That is, some of the strong reaction from higher paid workers that is observable each January comes about because of the fact that the social security contributions for them are not collected evenly over the year. This year 85 percent of the workers in the country will pay the same percentage of their earnings toward social security all through the year. In January they will notice only a small increase in the rate.

What happens to the 15 percent of higher paid workers, however, is that towards the end of the year they pay nothing toward social security. They have a deduction up to November or December, then all of a sudden, they have a big increase in take-home pay. Then in January, wham, there is a big deduction in the take-home pay equal to the full amount of the social security contribution.

Some people may think all of the renewed deduction is an increase. This year, for example, only a tiny part of the January deduction was an increase, but what happened was that higher paid workers who

had been paying nothing at all were once again paying in January. Some of them may have interpreted this as a dramatic increase in social security taxes.

Senator NELSON. Why does it work that way?

Mr. BALL. Under the law, a worker has social security deductions made up to the time that he reaches the maximum earnings subject to deductions. For example, with the maximum earnings based at \$17,700 this year, a \$25,000 worker will not pay any contributions at all after his earnings total \$17,700 in October.

It would be administratively more complicated, but you might want to give some thought to having the higher paid pay evenly throughout the year. But this is sort of a side point.

Mr. Chairman, as I think you can see, I am not one of those who is urging action this year to change the 1977 amendments. But, nevertheless, if it is going to be done—if pressure is such that some action has to be taken, I would like to call to your attention three principles—

Senator NELSON. May I say just a word at that point?

People are pushing for a change this year for different reasons.

Mr. BALL. Yes.

Senator NELSON. My reason is the same one that I had last year when I advocated transferring money from the hospital insurance trust fund to pay for cash benefits. It is my viewpoint, Abner Mikva's viewpoint and many others, that we can simply take the opportunity of the proposed tax cut to continue to push the concept of transferring hospital insurance out of the social security system, and use the "payroll tax" revenues that would accrue to pay for cash benefits.

Now, there are others who, for different reasons, would like to have the taxes rolled back. That is not my reason.

Mr. BALL. I understand that, Mr. Chairman. It also brings up the point that it is not difficult to get a great many people to criticize the action that resulted in this increase in taxes. It seems to be much more difficult to get people to agree on what should take its place, and many of the proposals that have been made seem to me much worse than the present law. What could happen, if action is taken, is a deterioration of the situation for social security rather than a help to it.

Senator NELSON. I agree with that. Many proposals are being given serious consideration that I would not support.

Mr. BALL. The three principles that seem to me to be very important to maintain, if there is to be a change, is first a continued recognition that the social security system is a compact—I am not saying contract, but a compact—between the contributor and the U.S. Government, and that this compact is a long-range one.

We are making promises now to people who are going to have a right to expect that those promises are kept 35 or 40 years from now. And therefore, it seems to me that the financing plan of social security, the broad general plan, ought to be set up on a stable basis. Not that it cannot be changed from time to time as cost estimates change; I do not mean that. But it seems to me not an appropriate institution to modify for short-term budgetary, fiscal or economic reasons.

I do not see how you can maintain the confidence of the 100 million contributors to the system and the 34 million beneficiaries if this institution is tinkered with in relation to very short-term economic diffi-

culties. I believe such difficulties should be addressed outside of this institution, built, as it is, on a long-term compact.

The second point that I would like to stress, Mr. Chairman, is that in any changes that are made, it seems to me of great importance that you maintain the contributory principle for all parts of the system, not just the old age and survivors part or not just the disability part or not just medicare. Continuing to have deductions from workers earnings meet a very significant part of the cost of the program is the only way, I believe, that over the years you can be sure the system is not turned into a "welfare" or needs-tested program.

If you take all financing out of general revenue—let's take disability, for example—if you paid all of disability out of general revenue, I think it would occur to Congress, if not this year, in a year or two, to say well, if it is paid for entirely by general revenues, why pay only to people who have worked under social security? Why pay only to people who have so many quarters of coverage under social security?

People would say, if it is a general revenue system, that everybody should be entitled, if they meet the disability standards. And, then, I think they would also say, if it is a general revenue system, why relate it to the worker's past earnings? Why not relate it to need and pay the most to those who have the least.

And, instead of an insurance system replacing part of the income that is lost because people become disabled, I think inadvertently we would drift into either a flat benefit system or a means tested system, and I would guess a means tested system over time.

So it seems to me that the contributory principle is very important in preserving the nature of the system. I believe it is necessary, also, in medicare, to keep some significant deduction from workers' earnings or the question will logically arise, "Why take care of the medical bills of people who can take care of themselves?"

It is the fact that the worker has paid for his protection and his employer has paid for his protection that maintains the right to payment down through the years.

I do not argue from this, Mr. Chairman, that there can be no general revenue in the system. I happen to believe it would be desirable to have some general revenue support for the system over time, and, specifically, I like the idea that if action is to be taken this year, that a general revenue contribution pay a portion of medicare. I think this would probably be the best way to go, leaving the cash program alone. Old age, survivors and disability insurance is wage-related and medicare benefits are not. Perhaps you could change the nature of the financing of medicare so that it was on a tripartite basis—just hospital insurance under medicare—a third from general revenues, a third from the employer, and a third from the employee.

But I would urge you to keep a significant contribution from the employee in the medicare system as well as the other parts of the program because of the danger otherwise of its becoming a means-tested program.

Senator NELSON. I think that is a good point, and I believe it is important to keep general funds out of the cash benefits program for the reasons you have stated plus the fact that it is impossible to control the benefits if they are going to be coming out of the general fund, because



the Congress then is under tremendous pressure to vote for increased benefits and it is very hard to show why you would not, because the one who wants the benefit can show considerable need, that is, not enough income.

On the other hand, you do not impose the tax to pay for it.

I view the hospital insurance program a bit differently from those that are wage related such as disability or your retired cash benefits since there is no wage relation to that benefit at all. You get a hospital benefit that is exactly the same, no matter what your wage is.

So it seems to me, at least, that if we use general funds, as I have advocated, it be confined solely to the hospital benefits program and I think you make a good and thoughtful argument for the proposition that there still should be a contribution from the employer-employee into the hospital plan, whatever the formula may be. I am not firmly fixed in my own mind whether it ought to be 50 percent general fund and one-half employer/employee or one-third/one-third/one-third.

But I think it is sound to maintain that contributory relationship because, as you say, if there is not, then the argument is why not cover everybody because everybody put something into the general fund.

Mr. BALL. Right, and then I think the next thing people will say is give it only to those who are in need.

The final principle that it seems to me it would be important to keep in mind in any change would be that what is done ought to make people feel that the system is soundly financed, as they now have a right to feel following the 1977 amendments.

We went through 3 years of talk about the bankruptcy of the social security system. Now, after the 1977 amendments, you've settled that problem. The 1977 amendments have soundly financed the program for the next 50 years.

It seems to me it would be a great mistake, by taking action this year, to raise again the question of whether the long-range financing of social security is sound. I would urge that if there is a change that the change be one which approximately, at least, keeps the system in the same long-range financing position as is true of the law as it now stands.

I am quite concerned about such proposals as the diversion of a temporary crude oil tax to social security as a substitute for part of the long-range plan. The question immediately arises, "What happens at the end of the temporary period?" If it is a temporary tax, you do not have long-range security, and Congress would have backed away from their long-range plan.

So these temporary adjustments to hold off the scheduled increases for next year, I am afraid, have the effect of undermining people's confidence in the long-range financing plan. I would hope, if any action is taken, that it be on a basis that continues a long-range financing plan that goes at least approximately the same long-range security as the present plan.

For example, under the plan that you were just mentioning, Mr. Chairman, if the Congress made a policy decision that from now on you were going to finance medicare on a tripartite basis: A third out of general revenue, a third from employers and a third from employees, that would not affect the cash program at all and, at the same time,

medicare financing would not be weakened. That kind of a change, it seems to me, would not be upsetting to people.

There is one other proposal—and I am sure you realize that I am not pushing any of these—that if you are going to act might be worth considering. The tripartite financing of medicare may not address what I understand to be the political concern of people who have to run for office—and I can sympathize with them; it is easy for me to sit here and say hold the line, because I never have to appear before constituents. But the tripartite financing of medicare may not be aimed enough at the reaction of the higher paid worker, which I gather is what is creating the concern.

As far as the higher paid worker goes, I see two alternatives that would affect social security financing only slightly. One would be to let the 1979 wage base go into effect as scheduled but then, on the employee side, cancel the ad hoc wage base increases for 1980 and 1981. This would respond directly to the people that we are told are upset and excited and would have little effect on social security financing. The income from the higher wage base on employees in the years 1980 and 1981 is almost all used up in the long run to pay out higher benefits to the highest paid workers, and you would leave the system on a long-range actuarial basis just about where it is now, as long as, of course, you retained the wage bases in present law on the employer's side, just leave the wage base changes as they are for the employer, but—

Senator DOLE. How would that work?

Mr. BALL. Well, Senator Dole, the wage base is scheduled now to go up in 1979 to \$22,900 and the proposal I was describing would leave that as it is. But then, in 1980, under present law, the maximum earnings base would go to \$25,900 and, instead of that, under this proposal, on the employee's side, in 1980, the \$22,900 would rise only to the extent average wages had risen, which, of course, would be a lot less than now scheduled.

But you would leave the base at the present low amount for employers. As I say, the system does not lose much money in the long run by this change because almost everything that is taken from higher paid employees goes back to them again in benefits. But the system gains on the employer side.

And then do the same in 1981, where the base is scheduled to go to \$29,700. Instead you could have the employee base go up just the additional amount called for by the increase in average wages but leave the employer base where it is under present law.

Now, of course, this raises again the argument of unequal contributions between employers and employees, but I know no easy solution in making these changes. It is just possible that people will feel differently this year than they did last year on an issue like this.

Senator NELSON. What base would you then get in 1982? Back to the 1977 law?

Mr. BALL. No; in 1982, the employee base would be whatever the—you see, I had \$22,900 for the employee in 1979 and under the plan, this amount would just be increasing automatically by the amount of increase in average wages so that when you get to—

Senator NELSON. Average wages do not increase that base. More people reach that base because of wages.

Mr. BALL. But the maximum base, Mr. Chairman, also goes up automatically with average wages so I just have it go up automatically after 1979 for employees and after 1982 for employers. I have not made an estimate—

Senator NELSON. But how does that affect what we did in 1977, affect what base is adopted for 1982, 1983, 1984, 1985, and on?

Mr. BALL. On the employee side, it would make them very considerably lower.

Senator NELSON. I know, but what I am trying to get at is what does the employees' base become if you suspend, under your suggestion, the increase—you accept the 1979 base, suspend the 1980, 1981 base increases except for average wage increases.

What becomes of the base in 1982?

Mr. BALL. The base in 1982 is the cumulative result of having the \$22,900 go up automatically with average wages. There would be no more ad hoc increases in the law for employees. It just goes up automatically.

I would guess, by 1982 it might be somewhere around \$27,000 instead of the \$31,000 now estimated under present law.

Senator NELSON. Well, you would permanently suspend the ad hoc increases?

Mr. BALL. Yes, on the employee side, except for the 1979 one, and out of that—

Senator NELSON. That is a slightly different version of what the Senate adopted last year.

Mr. BALL. Yes, but I think there is quite a difference strategically, Mr. Chairman, in that these higher wage bases are already in the law and you would just not be rescinding them on the employer side. You would be cancelling two of them on the employee side. The result would be much lower contributions from higher paid employees than is presently scheduled. This would meet what I understand is, at least, a major part of what the objection has been.

Senator NELSON. That, of course, would have two results that I see anyway. The benefits to the employee, of course, will be reduced proportionately.

Mr. BALL. For these higher paid workers.

Senator NELSON. And it also reduces the obligation of the employer, in the long pull, in the sense that he is contributing to the retirement amount which that employee is going to get.

Mr. BALL. Well, I would still be charging him, under this plan, at the same rate as if the employee were going to get higher benefits.

Senator NELSON. I understand that, but the final benefit rate of each employee is going to be lower than it would be if you increased the base on both sides.

Mr. BALL. Right.

Senator NELSON. And the employer can deduct his, and if he is in the 50-percent bracket, he deducts 50 percent. But his contribution is a deductible expense.

But the total amount of the money that has to go into the fund to pay benefits is reduced overall when you reduce the contribution of the employee, because the employee's benefits are determined by his contribution, not the employer's contribution.

Mr. BALL. That is correct. The employee's benefits are determined by the employee wage base. I do not want to leave you with the impression that employers would be paying less than they would under present law. They would be paying the same. But the higher paid employee would pay less and the higher paid employee would get less, and that seems to be what some of them, at least, want.

Now, I should point out to you that on the basis of economic analysis, this probably does not have as good an effect on inflation as reducing the employer's contribution. I do not think Mr. Bosworth would like this proposal, because it is the increase in the employer contribution that he was arguing was inflationary. I just want to point out that negative aspect of the proposal to you.

Another possibility along the same line is that instead of the 1979 increase on the employee side, one could make even that somewhat smaller. The President originally recommended four \$600 increases. You could put those together and make the 1979 base \$2,400 above what it would have been under the old law and from then on have it increase automatically with average wages.

There is something to be said, in my opinion, for having these wage base increases for employees less than they would be from 1980 on under present law. If the Congress wishes to make changes now, which I am not advocating, there is a good case for not having the wage bases go up quite so much with the consequent effect of having higher paid workers get such high social security benefits in the long-range future.

I really have been surprised that the insurance organizations have, evidently, in the last legislative session, been more willing to accept these higher wage bases for employees than an unequal contribution for employers and employees. I would have thought that their business interests would have been on the side of holding down the employee wage base increases and restricting the expansion of social security for the higher paid. Such expansion may affect life insurance and private pension plans. It is possible, it is just possible—I have not talked with anybody—that leaving the employer base where it is now and modifying the employee base in a way which does not damage long-range social security financing might be a little more acceptable to insurance and business interests now than it was last year. I have no way of knowing.

Senator NELSON. I think the dilemma is that we do not know what, in fact, the public would like to have because there is not a broad enough understanding of what the system does.

Mr. BALL. I think that is right.

Senator NELSON. And it may very well be that if we had had more time to examine in great depth over a longer period the replacement rate question and the base question, people would come down on the side of supporting the base and rates as they are.

If I had my option, I would take what the Congress did, because I would want the higher retirement rate, but I am not sure that it is understood by the public what the dynamics of the system are in an economy in which you are looking 20 years and 30 years and 40 years down the road. I do not think it is well understood by the employee what this means to him or her in terms of replacement rate when they retire. And, if they did know, a substantial majority might support

it. At least, many people I have talked to who did not understand it previously have come around to the view that that is a pretty good system.

So our dilemma is that people do not understand it.

Mr. BALL. I think that is absolutely right, Mr. Chairman and, for that reason, I come down on the side of urging that the Congress not act this year—action which would have to be done in haste—but rather wait for the reports from these three or four commissions, councils, and studies that the Congress itself has set up. I believe that what you did last year was pretty good.

That completes my statement.

Senator NELSON. Senator Curtis?

Senator CURTIS. Mr. Ball, we are delighted to have you here. I share your view that we should not take hasty action.

Will you be a member of the Commission that the Congress set up?

Mr. BALL. Not the Commission, Senator. I have been appointed a member of the statutory advisory council that is a permanent part of the law and is appointed every 4 years. Secretary Califano appoints that council and then they report to him and to the Congress.

Senator CURTIS. I was under the impression that there were two to be appointed by—

Mr. BALL. There is a commission—

Senator CURTIS [continuing]. By the House, two by the Senate, and five by the President.

Mr. BALL. That is correct, and that is an entirely separate commission.

Senator CURTIS. I thought you had been designated as one of those.

Mr. BALL. No; I have not sir. I am on the advisory council.

Senator CURTIS. All right.

I was impressed by the conversation with the chairman about the lack of understanding of this system. Do you think that before any changes of any significance are made that there ought to be a complete cost-benefit analysis, projected out so that people can see it and see what is going on into the future?

Mr. BALL. Yes. I think that has been done, Senator. It is just that people, the ordinary individual, has not had access to it. The social security actuaries and the trustees make these reports, of course, as you know, periodically and they do a good job.

Senator CURTIS. I cannot think of anything that has been prepared and submitted to the public so that he can choose whether he wants a social security retirement of \$9,500 or \$21,000 as compared to what he could get for such and such a cost.

I think that we have operated on a temporary basis, always under stress, and he has had only a part of the picture.

I think that it is true what you point out, that some do not realize that they would get a greater benefit, but I think also there might be some who would say that benefit is too large, that part of that should be left to the private sector.

Mr. BALL. Well, that is why I was saying that one possibility is to hold down the employee wage base increases some, an action which does leave more room for the private sector.

Senator CURTIS. Well, I think your recommendation that we not do anything this year is very wise.

Now, you have been around here a long time. You should be an expert as a Congress watcher. You have seen proposals submitted here and what happened and so on, so I would have one more question.

Suppose we decided to pay 20 percent of the cost of old age and survivor programs out of general funds. How long would it be until we would raise that to 22 percent and then to 25 percent. How many years?

Mr. BALL. I certainly have watched Congress a long time, but not enough to make that sort of a prediction, Senator.

Senator CURTIS. I think it would be a confession of the error in your recommendations that we go into general fund financing, because we always act in desperation and we need some money and we have to do something and where can we get it, and somebody suggests, 40 years from now, let's raise the wage base or something or other so that we can have a paper balance here, and nobody seems to complain about 20 percent out of the general fund so why not, instead of adding to the payroll taxes, why do we not make this 22 percent and take care of our needs.

I think, as a Congress watcher, you would realize that the course that it would take.

Senator NELSON. Are you talking, Senator Curtis, about the cash benefits program?

Senator CURTIS. Yes.

Senator NELSON. I would agree. I would not want to do that.

Mr. BALL. I feel that if the Congress does put general revenue fund money into social security that there would be a safeguard against what you are suggesting, Senator, if the general revenue contribution is for some very specific purpose.

Senator CURTIS. Now, how would you establish such a safeguard?

Mr. BALL. I am not advocating this now but, talking about the long run, I could easily see a case to be made for general revenues, even in the cash benefit program, for a specific purpose.

As you know, social security has a considerable weighting in favor of low-paid workers and a minimum benefit for the low paid regular worker. Some portion of general revenue funding for that part of the system, which, in effect, relieves the general taxpayer of having to pay more for welfare, might be a rationale where you could hold the line.

But, as I say, I am not pushing that view.

Senator CURTIS. Well, the next Congress could change that.

Mr. BALL. Oh, yes. The next Congress can put in more general revenue.

Senator CURTIS. And, you see, the next Congress would have a new crisis, and so we took a little out of the general fund and the heavens did not fall, so we can help it a little bit.

Mr. BALL. Of course, in the medicare program, as you realize, part B now has—that is, the supplementary medical benefits for physician charges—has a very considerable amount from general revenues, and at the beginning of the medicare program there was a blanket-in arrangement under hospital insurance that took quite a lot from general revenues, and that has, so far, not spread. In fact, of course, in the hospital part there is less from general revenue now than there used to be.

But I do not quarrel with the idea that there is not anything stable about saying 20 percent.

Senator CURTIS. Here is another thing that worries me about this idea of just ascend on a ladder, wage base benefits, the whole thing, just keep on going. The poor unfortunate guy who lives to be 92, he will have had his benefit established at the time of his retirement, and he has to go out and with his widow's mite compete in the grocery store against all of this pie in the sky that is held out for somebody who is going to retire later.

Mr. BALL. Of course, he is protected against any increase in the cost of living. Both the 1972 and the 1977 amendments keep benefit payments up to date with inflation, and I think that is very important.

Senator CURTIS. That is one factor, but when we talk about the figures for a compulsory Government retirement that have been mentioned here, it still would not put him anywhere near in the ballpark.

I would guess that the older a person gets, the less independence he would have, because not only is he older and his faculties are slipping away, but his private resources may have been spent more when he was 65.

This continuous inflation, every figure going up, is a great thing, from one viewpoint. It is nice to buy a house this year. You will pay a lot more than it is worth with the full knowledge that in 2 years or 5 years you can sell it at a tremendous profit, but it reaches a time when nobody can buy a house.

I do not want to take time for an economic discussion, but I do appreciate having you here, and I concur with your recommendation that this is complex and we ought to take a little time.

Mr. BALL. Thank you, Senator Curtis.

Senator NELSON. Thank you very much. We appreciate your taking the time to come this morning.

[The prepared statement of Mr. Ball follows:]

STATEMENT OF ROBERT M. BALL, SENIOR SCHOLAR, THE INSTITUTE OF MEDICINE  
OF THE NATIONAL ACADEMY OF SCIENCES

Mr. Chairman and members of the committee: My name is Robert Ball and I am now a Senior Scholar at the Institute of Medicine of the National Academy of Sciences. From April 1962 until March 1973 I was Commissioner of Social Security and prior to that served for approximately 20 years in various positions in the Social Security Administration and its predecessor organization, the Social Security Board. I am testifying today as an individual, and my opinions do not necessarily represent those of any organization with which I am associated.

THE BENEFIT PROVISIONS OF THE 1977 AMENDMENTS

Before turning to the question of social security financing, which I realize is the main interest of the Committee at this time, I would like to review the very important benefit changes that were made by the 1977 amendments. There has been much public discussion of the increases in the social security contributions, but it is my impression that the fundamental restructuring of the benefit provisions has been largely overlooked. Through the press, radio, and television, higher-paid workers have been made aware of the fact that they will be paying more into social security in the future but I am not at all sure they are aware of what they will be paying for.

Current contributors to social security are not paying for benefits of the general level of those being paid by social security today, but are paying rather for benefits which 10, 15, 25, or 40 years from now will not only maintain the purchasing

power that present benefits have but will reflect general increases in the level of living resulting from cumulative increases in productivity. For example, workers now in their early 40s who will be retiring at 65 around the turn of the century will be entitled to benefits when they retire which seem very high by today's standards. A worker of this age, earning average wages of about \$10,000, who continues to earn the average wage will start out in retirement with a social security benefit of about \$15,000 a year, with an additional amount of about \$7,500 payable to a spouse. (This is on the assumption that wages will rise, on the average, about 5¼ percent a year, reflecting both inflation and productivity increases.) The low earner (now earning, say, slightly less than \$5,000 a year) whose earnings rise in proportion to increases in average earnings will get a retirement benefit of about \$9,500 at the time of retirement around the year 2000—half again as much for a couple. Those who pay on the new maximums set by the 1977 amendments and are now in their early 40s will retire with benefits of about \$21,000—over \$30,000 a year for the couple. (The attached table 1 shows projected benefits for persons retiring at age 65 in various future years and also states the assumptions used by the Office of the Actuary of the Social Security Administration in making these projections.)

The amounts are the estimated annual benefits payable at the time the beneficiary comes on the social security rolls. Once on the rolls, benefits are inflation proof. For retired people, disabled people, widows, and motherless or fatherless children benefits will be increased automatically in accordance with increases the consumer price index, as they were under the old law. Fifteen years after retirement, say, the social security beneficiary will still be able to buy the same level of living as at the time of retirement. (In contrast, in the case of the usual private pension benefit—since private pension plans seldom index benefits to the cost of living—the protection would have dropped substantially, to only about 55 percent of its original purchasing power, assuming prices rose at the average rate of 4 percent a year.) And social security benefits are not only inflation-proof, but tax exempt.

People below age 40 will get even higher benefits because benefits are related to wage levels at the time benefits are first payable. Specifically, social security benefits will be based on a worker's lifetime average wage updated to reflect the level of living current shortly before the worker retires, becomes disabled, or dies. This updating, or indexing, will be accomplished by increasing a worker's actual earnings in a given year by the same percentage that earnings generally have increased. For example, if a worker earned \$3,000 in 1954, retired at age 62 in 1979, and earnings levels were, say, three times higher in 1977\* than in 1974, the \$3,000 would be increased to \$9,000. Each year's earnings will be updated in this same way, with the result that social security benefit protection for the 100 million current contributors and their families will be automatically kept up to date with wages and, therefore, with the level of living in the country as a whole. Benefits will be related to the level of living current just prior to the time the individual begins to receive benefits and then, as I said, the benefit payments will be kept up to date with increases in the cost of living.

This new system of basing benefits on average indexed monthly earnings has sometimes been referred to as "stabilizing the replacement rate." That is, the relationship of benefits to recent earnings will remain approximately the same over the long run as it is for those who will be retiring under this new wage-indexing system next year. In other words, the \$15,000 a year benefit for the average worker I referred to earlier will still be about 41 percent of the average wage around the year 2000, just as the benefit for the average worker retiring at age 65 under the wage-indexing system in the near future will be about 41 percent.

In general, the effect of basing benefits on average earnings indexed to wages is similar to the effect achieved by basing benefits on a short-term average of the years of highest earnings as, for example, in the Federal civil service system, where benefits are based on an average of the highest three years of earnings, or as in many private pension plans, where the benefits are based on the highest five years of earnings. Both approaches—a short-term average of the years of highest earnings or indexed earnings—result in constantly increasing levels of

---

\*Wages are indexed to the year prior to the year before benefits are computed because under the new annual reporting provisions this is the latest year for which data are available.



benefit protection that compensate for inflation and also reflect increases in productivity. However, because it bases benefits on a whole lifetime of earnings rather than just a few years, the new social security method does a better job of relating the benefit amount to the individual worker's contribution to production over his working lifetime.

Under this new approach, social security protection—not just retirement protection but also survivors' and disability protection—will reflect whatever happens to the productivity of the economy. If there are big productivity increases in the future, as there have been in the past, social security protection will rise accordingly. In the unlikely event of very slight increases in productivity, or none at all, social security protection will rise very little, or not at all, automatically keeping social security protection in line with the level of living of current workers. This is as it should be.

An incidental advantage of changing to this system of wage-indexing is that the protection, while following the level of living of current workers, will not—by the happenstance of the way wages and prices interact—result in benefit protection either running ahead of increases in wages or falling behind, as was possible under the old law. A major factor of uncertainty has been removed by this change to indexed wages. Contributors can now tell ahead of time what their social security protection will mean to them in relation to the level of living current at the time they retire, and private pension planners will know the remaining area of income loss to which their planning should be addressed. By the same token, one major element of uncertainty has been removed from long-range cost estimating. All in all, these changes in the social security benefit provisions are the most important since the amendments of 1950.

Mr. Chairman, this restructuring of the benefit provisions of the Social Security Act—together with protection under supplementary pension plans—goes a very long way toward assuring that in the future American workers at all levels of earnings will have reasonably adequate protection against the loss of wages due to retirement, total disability, and death. It makes the American social security system of cash benefits one of the best four or five systems in the world. The Congress and the Administration have every reason to be proud of this accomplishment. The problem is that few people seem to be aware of what has been done.

Attached to this statement as an appendix is a short description of other important benefit changes made by the 1977 amendments. They, too, are of considerable significance. They provide an incentive for work after age 65 by increasing social security benefits 3 percent a year up to age 70 so that an individual who waits to retire will get 15 percent more in social security benefits than he would have otherwise. And at age 70, beginning in 1982, people will get their social security benefits without regard to the amount of their earnings. Widows or widowers over age 60 will no longer lose benefits by marrying. The special minimum benefit payable to those with low earnings but with regular social security coverage has been increased, and the provision protecting wives against the loss of social security rights because of divorce has been greatly strengthened.

#### RESTORING THE FINANCING INTEGRITY OF THE SOCIAL SECURITY SYSTEM

An equally important achievement of the 1977 amendments was to restore financial integrity to the social security system. Under the amendments it is conservatively estimated that the social security program—kept up to date with rising earnings as described and with benefits guaranteed to be inflation-proof—is fully financed over the next 50 years. Now many organizations and individuals advocated financing provisions somewhat different from those finally adopted. Some wanted partial financing from general revenues. Some objected to the size of the increases in the maximum earnings base. Some favored higher contribution rates; some lower. I supported the recommendations made by the President and prefer what he proposed to what was enacted, but the important point is that action was taken and financial integrity restored to the system—even though in the nature of things the specific plan could not be satisfactory to all. The stability of the system is more important than whether the financing plan meets any particular person's definition of the best possible plan.

Just about every American family is now affected importantly by the social security system. Over 100 million workers and their employers contribute to the program each year and in fiscal year 1979 social security will pay out over \$100 billion in cash benefits. Currently more than 34 million people, including retired

and disabled people, their dependents, widows, widowers, and children of deceased workers get a benefit each month. This is one out of every seven Americans. While social security is our most important anti-poverty program, keeping some 12-13 million Americans above the government-defined poverty level, it is much more. Social security not only protects those who would otherwise be poor but is now the base on which practically everyone builds protection against loss of family income because of retirement, disability, and death. Today, 93 percent of the people 65 and older are eligible for social security benefits, and 95 out of 100 young children and their mothers are protected by the life insurance (survivors') features of social security. Four out of five people in the age group 21-64 have protection under social security against the loss of income caused by total disability.

It is self-evident that the financial integrity of this program is essential to the citizen's faith in his government. The restoration of the financial integrity of the social security system was, therefore, a major achievement by the Congress and the Administration and one which is approved, I believe, by the great majority of rank and file citizens. Indeed, contribution increases for most people are quite modest.

Let's look at the dollar increases per year that will occur under the 1977 amendments as compared to the law in effect prior to that time. The increases between now and 1985 are small except for the highest-paid 15 percent of earners, most of whom will for the first time pay at the same rate as lower-paid workers; up to now, of course, they have been paying at a lower rate. This means substantial increases for them. As shown in table 2, the \$10,000 a year worker—about average—will pay \$8.00 a year more in 1979; \$8.00 more in 1980; \$35.00 more in 1981; and \$40.00 (\$3.33 a month) more in 1982-84. For the same years the figures for the \$15,000 workers are \$12.00, \$12.00, \$52.50 and \$60.00, or \$5.00 a month more by 1984. Because of the wage base increase, the \$20,000 a year worker would pay \$82.55 a year more in 1979, but then in 1980 only \$16 more than under the old law; in 1981, \$70.00 more; and in 1982, \$84.80 (\$7.07 a month) more. It is the highest-paid who have the major increases but, of course, they also get additional credit toward benefits. The \$30,000 earner will pay \$260.32 more in 1979; \$353.47 more in 1980; \$595.35 more in 1981; and then in 1982-84 the \$30,000 worker has an increase of \$535.80. For the \$40,000 worker the increase by 1984 will be \$656.40. These figures include the contributions for both cash benefits and Medicare.

The figures I have been giving are limited to the period between now and 1985. There are additional rate increases in the cash benefit program now scheduled for 1985 and 1990—5.7 percent in 1985 as compared to 5.4 in 1984, and 6.2 in 1990. I would not suggest that these rates be changed at the present time but it is perhaps well to note that under pay-as-you-go principles they are higher than necessary according to the official cost estimates. According to these estimates, which I believe to be on the conservative side, the rates under a completely self-financed system would not need to be higher than 5.5 percent for the cash benefit program until after the year 2000.

The contribution rate and wage base increases in the 1977 amendments have been publicized frequently in the last few months as causing a "tripling of contributions." It is true that it is estimated that the worker earning \$42,600 by 1986 will pay in \$3,045.90 as compared with the maximum contribution for both Medicare and cash benefits of \$1,070.85 this year, but it is also true that such a person's contributions would have increased to an estimated \$2,012.40 under the old law because like all workers the higher-paid were scheduled to pay additional amounts as earnings rose. And, of course, in other retirement systems, too, the contributions rise as earnings increase. Under the Federal civil service retirement system the maximum contribution for a civil servant early in 1977 was \$2,772 a year, but after March of 1977 the maximum went up to \$3,325 as a result of a pay increase.

The increase for the \$42,600 earner and above from \$2,012.40 in 1986 to \$3,045.90 is the result of including more of his earnings for social security contributions and benefit credits than was true under the old law. Increases of this size affect less than 10 percent of the persons covered under social security, and, in any event, why are increases of this size thought to be so outrageous for these higher-paid people? For years we have heard a great deal about making social security financing more progressive. This is what the 1977 amendments did by applying the same rate to these higher-paid people that is applied to lower-paid people. It is not a higher rate, just the same rate, and this apparently is what all the fuss is about.

Although I favor, over time, having some general revenue contribution to social security, it does not seem to me reasonable to turn to general revenues primarily to keep the highest-paid earners from having to pay the same contribution rates as the lower-paid. And where do these high earners who are objecting think the general revenue money will come from? After all, the income tax has a progressive rate and in all likelihood, over time, those higher-paid earners now calling for lowering their contributions to social security would pay more if general revenues are partly substituted for flat-rate social security contributions, and then, too, they would not get the additional benefit credits that they do under present law. It does not seem unreasonable to me to ask higher-paid earners to contribute the same proportion of their earnings as lower-paid workers.

It is quite possible that to some extent the negative reaction of some higher-paid workers to social security contributions arises from the method of collection. At the present time, workers have 5.05 percent deducted from their earnings for social security cash benefits each pay period up until the time that their total earnings exceed \$17,700. This means that for 85 percent of earners in the country, the 5.05 percent is deducted all year long and takehome pay remains the same. For the remaining 15 percent of earners, however, there comes a time, almost always late in the year, when no social security deductions are made at all. Take-home pay goes up in December and then in the first pay period of January it goes down by the full amount of the social security deductions, not just by the amount of any increase in the rate. The new law provides that by 1981 about 94 percent of the workers in the country will have the same social security rate deducted from their earnings throughout the year and have their full earnings counted for benefit purposes. I wouldn't be surprised if once this takes place we hear less about the impact of social security contributions each January than we do now! Perhaps consideration should be given to collecting social security contributions throughout the year for all earners. The public relations gain might well compensate for the increased administrative difficulty.

Mr. Chairman, I am not urging action this year to modify the financing provisions adopted in 1977. I believe it would be better to wait until a careful review of all relevant factors can be made by the Congress and the Executive Branch and then if changes are to be made, they can be ones that will last. I think it is unwise to make frequent changes in these long-range financing arrangements for this vital program. However, if changes are to be made this year, there are certain basic principles that it seems to me are important to keep in mind.

#### --- BASIC PRINCIPLES TO BE FOLLOWED IN ANY CHANGE IN FINANCING ARRANGEMENTS

##### *1. The financing should be based on a stable plan and not altered from year to year depending on short-term budget goals or economic or fiscal policy.*

Social security is a long-term compact between the contributor and the United States government. It is difficult for the public to maintain faith in the system if it appears that the financing plan is subject to change because of short-run budgetary, economic, or fiscal goals. This does not mean that the plan should not be changed as estimates of cost change, but it does mean that the long-term social security financing plan should not be reopened to meet short-run goals extraneous to the program's basic purpose. In the course of a year social security ordinarily pays out about the same amount as it takes in and as an institution is quite neutral in economic effect. It should be kept that way.

##### *2. The contributory principle should be maintained.*

Although I favor the partial use of general revenues in the financing of social security, it seems to me of the first importance that a considerable part of the cost be met directly by deductions from worker's earnings. This is the only sure way of retaining a program over time in which the benefit amounts are related to past earnings and paid without a test of need. I just don't believe that people would support giving higher-paid workers larger benefits than lower-paid workers if the program were paid for entirely by general taxes. A program supported by general revenues would end up paying either flat benefits or paying more to those who had less income of their own, as in an assistance program. The continuance of an earnings-related program depends on those who get the higher benefits paying higher contributions that are earmarked specifically for the social insurance program. And I think that it is important to relate benefits to

past earnings because economic security isn't just a matter of having enough to meet some budgetary minimum for food, clothing, and shelter—the same for all. Economic security depends, rather, on being able to count on a level of living—paid for by a combination of social security, private pensions and personal savings—when one can't work that is not too far below that attained while working. Also, relating benefits to past earnings helps adjust for differences in the level and the cost of living between urban and rural areas and between different regions of the country. There is a case to be made, too, that relating benefits to past earnings reinforces the general system of economic incentives. Those who earn more get more social security protection.

Our social security system is insurance against the loss of earned income. It is weighted in favor of those with lower earnings and those with dependents but the amount also varies by the amount of the earnings lost because of retirement, disability, or death. We would be losing a lot if we drifted toward a flat benefit program and even more if we drifted toward a system where benefits were conditioned upon assets and income.

It is the deduction from workers' earnings—the contribution—that guarantees we will continue to pay earnings-related benefits without a test of need. Also the contribution makes future benefit payments more certain. The compact in social security requires paying contributions while earning; the worker and his family then receive certain benefits under defined conditions when earnings have ceased or may be presumed to have been reduced. Such a system involves very long-term commitments. Beneficiaries are likely to be paid over many years once they come on the rolls, and contributors today are being promised benefits which may not begin for 40 or more years in the future. Yet income from current contributors is used to pay current beneficiaries rather than being held for the retirement of the contributor and thus the ability to meet future obligations depends on future contributions. The security of future benefit payments under such an arrangement is greatly reinforced by social security contributions having been paid by the people who will benefit under the system. Putting it another way: the moral obligation of the government to honor future social security claims is made much stronger by the fact that the covered workers and their families have made a specific sacrifice in anticipation of social security benefits; they and their employers have contributed to the cost of the social security system, and thus they have built up the right to expect social security protection in return. Very importantly, the contributory nature of the system helps to make clear that it would be unfair to introduce eligibility conditions, like a means test, that would keep benefits from people who had paid toward their own protection.

Furthermore, the contribution helps determine how people feel about the program. It is the contribution that connects social security with the philosophy of self-help. Most people like it that way. They feel good about receiving a social security benefit because they and their employers have paid for it.

If disability protection were separated from the financing arrangements of old-age and survivors insurance and supported entirely from general revenues, as has recently been suggested, it seems to me it would not be long before the concept of insuring people against the loss of income because of disability would change. If paid for entirely from general revenues, what is the justification for limiting payment to those who have had specific earnings in social security covered employment, and what is the justification for making the payments in accordance with the amount of those earnings? Instead of a system built on insurance principles such as we now have, and protecting all against loss of earned income because of total disability, we might soon find that a system supported entirely from general revenues would be more consistent with welfare principles, paying only those in need and in accordance with the amount of the need.

Welfare programs are desirable adjuncts to social insurance but they serve an entirely different function. Only social insurance protects the individual before he becomes poor and helps maintain the worker and his dependents in a way related to the level of living achieved while working. Disability insurance is an important part of social insurance protection for everyone, not just the poor.

Although it is not a wage-related benefit, it is also important to retain the contributory principle in Medicare. Without deductions from workers earnings as the way of paying for an important part of the cost of the program, Medicare, too, over time, might well be turned into a welfare program. After all, the reasoning would go, why pay the costs of medical care out of general revenues for people who can pay for the care out of their own funds? Instead of an insurance program protecting the resources of those covered, we might well find ourselves

with a program like Medicaid which gives help only after one has used up one's resources and joined the poor.

For these reasons it seems to me of great importance to retain deductions from workers' earnings as a major part of the financing plan for all parts of the social security program.

*3. Any changes in the financing plan should give the same long range security as the present plan*

We have just been through a three-year period in which the future bankruptcy of social security has been predicted over and over again. The 1977 amendments have restored the financial integrity of the program. It would be a great mistake, in my opinion, to do something now that would once again make people feel insecure about the program's future. Any action that has the appearance of reopening the fundamental financing decisions made in 1977 and casting doubt on whether future scheduled increases will actually go into effect has this potential. Any change, therefore, should fit in with a long-range plan that leaves social security financing approximately as well off as it is today.

I am particularly concerned about proposals designed merely to postpone the rate and base schedules for the next few years such as a temporary tax on crude oil earmarked for social security. This would have the short-run effect of making the 1979 scheduled increases unnecessary, but it would raise the disturbing question of what happens after the temporary tax expires. Such a move can hardly give current contributors confidence in the ability of the system to meet its long-term obligations. It seems to me unwise as well to shift blame for oil price increases to social security. We should be striving to maintain the popularity of this important institution and not saddle it with extraneous problems. If the proceeds of a crude oil tax are to be redistributed, why to social security beneficiaries? There must be a fairer way to keep this money in the spending stream.

CONCLUSION

Mr. Chairman, I'm sure it is clear from what I've said so far that I would hope that the Congress would not act in haste this year and make changes in the amendments just approved on December 20th of 1977. As I said earlier, I supported the President's original recommendations and, therefore, over time, would like to see some modifications in the financing plan set up in 1977, but I do not see a need to rush into it, and in my opinion most of the "solutions" being proposed are much worse than present law.

If action seems inevitable, I, of course, have preferences. There are two approaches which follow the three principles I outlined earlier—basing the financing on a long-term, stable plan, maintaining the contributory principle, and leaving the financial situation of the program approximately as strong as it is today—which you might want to consider.

*1. Tripartite financing of hospital insurance under medicare*

One approach would be to leave the cash benefit program just as it is in present law without any change whatsoever, but move toward financing hospital insurance with equal contributions from employees, employers, and from the government. There is a change in long-range policy and can be made, I believe, without adverse effects on either the cash benefit program or medicare. If the Congress wanted to accomplish this change all at once and make it effective in 1979, it would work out that employers and employees would not have to pay any additional contributions in 1979 for either Medicare or the cash social security program. The 1977 legislation provides for an estimated increase in combined social security and Medicare contributions of \$6.4 billion over the old law. This is the equivalent of 0.7 percent of social security payrolls. Next year the contribution rate for the hospital part of Medicare is scheduled to rise from the present 1 percent of payroll to 1.05 percent of payroll on the employer and a like amount on the employee, for a total of 2.10. If instead, the rate were reduced to .70 for the employer, and a like amount for the employee, and the government were to contribute \$6.4 billion, the equivalent of .70 percent of payroll, hospital insurance would, of course, be financed on a tripartite basis. The cash benefit rate which is scheduled to rise from 5.05 to 5.08 would be allowed to go into effect, but the combined rate for cash benefits and Medicare would be 5.78, somewhat less than the 5.85 rate it was last year. The effect would be to substitute \$6.4 billion in general revenue funds for Medicare for the increase in \$6.4 billion for both the cash program and Medicare that would result next year from the scheduled in-

crease in the earnings base and in the contribution rates. People would pay less in total but the financing of the cash benefit program would be unaffected.

Carrying the theory of tripartite financing for Medicare into the future would mean that the combined rate for Medicare and the cash program in 1981 would be 6.22 instead of the 6.65 under present law; 6.27 in 1982 and 1984 instead of 6.70 under present law; 6.60 instead of 7.05 in 1985; and so on.

A modification of this plan would leave the combined contribution rate for both programs at 6.05 percent where it is today during the years 1979 and 1980 instead of letting the rate rise to 6.13. This would call for reducing the Medicare rate for next year from 1.05 to .97. A general revenue contribution for these two years to make up this loss would need to be only .08 percent of payroll and would, of course, go only to Medicare. Then, beginning in 1981, the first year that present law schedules a significant increase in the contribution rate, full tripartite financing could be adopted for Medicare with the same results as described for the other plan. This modification prevents an actual decrease in the rate over that being charged this year and then having to go higher again a couple of years later. Under this alternative there would be a payment of less than a billion dollars from general revenues in each of the two years 1979 and 1980, but it does prevent any increase in the contribution rate until 1981. (Actually it would be possible not to have any infusion of general revenues during these two years and just let the hospital insurance fund decline by these amounts, and then in 1981 move to a tripartite basis of financing.)

A third possibility would be to move into tripartite financing for Medicare by reducing the combined contribution rate to the 5.85 rate in effect last year which would mean less than tripartite financing in 1979 and 1980, but, as previously described, full tripartite financing could begin in 1981. This approach would forestall most but not all of the contribution increases scheduled for 1979.

Of course, any of these plans to move to tripartite financing for Medicare could be combined with reductions in the cash benefit rates now scheduled for 1985 and 1990 since these rates are higher than necessary.

## **2. Reducing the size of the employee wage base increases**

Although I believe that shifting to tripartite financing for hospital insurance under Medicare would be sound, it does not directly address what I understand to be the political problem arising out of the 1977 amendments—the size of the contribution increases for the highest-paid workers. It seems to me a good way to meet this problem would be to let the 1979 wage base increase go into effect but then do away with the ad hoc wage base increases for employees scheduled for 1980 and 1981. If the employer wage base increases were kept as they are in present law, such a change would have very little effect on the long-range actuarial balance of the cash benefit program since just about all of the income to the system from increases in the employee wage base is paid out later in higher benefits to higher-paid people. It would be desirable to keep the 1979 scheduled base increase for the purpose of short-range financing, but, in any event, it is the cumulative effect of the three ad hoc wage base increases, rather than just next year's increase, that apparently is so upsetting to some higher-paid people.

An alternative to this proposal would be to cancel the 1980 and 1981 wage base increases for employees and, in addition, lower the 1979 base increase somewhat. As you will remember, the President's original proposal included four \$600 increases in the employee wage base. If next year's wage base increase were to include a \$2,400 ad hoc increase instead of the estimated \$4,000 increase now scheduled as compared to present law, the base for 1979 would be \$21,300 instead of \$22,900. Under any of these plans for changing the wage base, it is assumed, of course, that the base would continue to rise automatically in accord with increases in average earnings as was the case under the old law and is the case today after the last of the ad hoc increases is made in 1981.

Mr. Chairman, although I have suggested two approaches to changing the financing arrangements that seem to me quite acceptable, I do believe it would be the wiser course not to legislate on this matter at all this year. I have very considerable sympathy for the position of the Administration that it would be best to wait until the Congress has available the reports of the various commissions and councils created by the Congress to look into social security financing questions. It is easy enough to get many people to object to the specifics of what was done in 1977, but it will not be so easy to get agreement on what modifications, if any, should be made.

Let me close as I started, by saying that, taken as a whole, the 1977 amendments seem to me to be a major accomplishment of the Congress and the Administration. The 1977 amendments contain the most important benefit changes in

the program since 1950 and the financing changes provide for full financing of the cash benefit program for the next 50 years.

## APPENDIX

## OTHER IMPORTANT BENEFIT CHANGES

1. The new system provides an incentive for work after age 65 by increasing the Social Security benefit 3% for every year a person postpones retirement between age 65 and age 70. Thus a person who works until age 70 will get a benefit 15% higher than if he had retired at 65. (Under the old law the increment for working after 65 is only 1% a year.)

2. Beginning in 1982, persons age 70 or over will receive benefits without regard to whether they are retired or not (under the old law this was true when people reached age 72). The test of what constitutes retirement for those between 65 and 70 has been liberalized. The exempt amount under the test will be increased for them (but not for those below 65) from the \$3,000 figure in effect in 1977 to \$4,000 in 1978, to \$4,500 in 1979, to \$5,000 in 1980, to \$5,500 in 1981, and \$6,000 in 1982. For those under 65, as under the old law, the exempt amount of \$3,240 in 1978 rises automatically with increases in the general level of earnings. This is also the case after 1982 for the higher exempt amount applicable to those over 65.

3. Individuals receiving widows or widowers benefits who marry after becoming 60 will no longer lose any benefits to which they were previously entitled, although, as in the past, if a spouse's benefit based on the new husband's or wife's earnings is higher than the amount they had previously been receiving, they will get the higher amount.

4. The minimum benefit provision has been revised. The minimum for those who contribute regularly to the program will be increased. For those with 30 years of coverage it rises from \$180 to \$230 next January. The minimum payable to those with relatively little coverage will be frozen at the dollar level that will be payable under the benefit table in effect in December 1978 (now estimated to be about \$121). Once on the rolls, this minimum benefit will rise in accord with increases in the cost of living, as do all other benefits. The minimum for those who contribute regularly to the program will be increased in line with increases in the cost of living for both current and future beneficiaries.

The changes in the minimum benefit provisions will help to make sure that all regular contributors to the social security system receive benefits that are reasonably adequate to meet their retirement needs, while at the same time avoiding the payment of expensive benefits to those who have contributed to the program for only short periods of time.

5. The provision protecting wives against the loss of social security rights because of divorce has been considerably improved. Under the old law, on divorce, a woman retained her rights to benefits as a wife (or later rights as a survivor) providing she had been married for at least 20 years. This period has been reduced to 10 years.

TABLE 1.—PROJECTED BENEFITS FOR PERSONS RETIRING AT AGE 65 IN SELECTED FUTURE YEARS<sup>1</sup>

Calendar year of retirement:	Earnings in previous year			Annual benefit amount for workers with following earnings		
	Low	Average	Maximum	Low	Average	Maximum
1979.....	\$5,271	\$10,572	\$17,700	\$3,142	\$4,932	\$6,165
1980.....	5,682	11,396	22,900	3,375	5,315	6,699
1981.....	6,085	12,205	25,900	3,635	5,740	7,251
1982.....	6,475	12,986	29,700	3,485	5,438	6,809
1983.....	6,863	13,766	31,800	3,607	5,643	7,257
1984.....	7,258	14,557	33,900	3,841	6,010	7,798
1985.....	7,675	15,394	36,000	4,099	6,409	8,390
1990.....	10,150	20,359	47,700	5,451	8,519	11,509
1995.....	13,424	26,925	63,000	7,198	11,243	15,605
2000.....	17,753	35,609	83,400	9,519	14,870	21,427

<sup>1</sup> Low earnings are defined as \$4,600 in 1975. Succeeding values following the trend of the average 1st quarter earnings in covered employment. Average earnings are defined as 4 times the average 1st quarter earnings for all workers in covered employment (\$9,266 in 1976). Maximum earnings are defined as the amount of the contribution and benefit base in each year. In each case it is assumed that the worker has had an unbroken pattern of earnings; at the relative level indicated. The following increases in 1st-quarter wages were assumed: 1977, 5.99 percent; 1978, 8.10 percent; 1979, 7.80 percent; 1980, 7.10 percent; 1981, 6.40 percent; 1982, 6 percent; 1983 and later, 5.75 percent.

TABLE 2.—ANNUAL INCREASES IN CONTRIBUTIONS AT SELECTED EARNINGS LEVELS AS A RESULT OF THE 1977 AMENDMENTS

Year	\$10,000 <sup>1</sup>			\$15,000 <sup>2</sup>			\$20,000 <sup>3</sup>			\$30,000 <sup>4</sup>			\$40,000 <sup>5</sup>		
	Old law	New law	Increase	Old law	New law	Increase	Old law	New law	Increase	Old law	New law	Increase	Old law	New law	Increase
<b>Cash benefits only:</b>															
1978-----	\$495	\$505	\$10	\$472.50	\$757.50	\$15.00	\$876.15	\$893.85	\$17.70	\$876.15	\$893.85	\$17.70	\$876.15	\$893.85	\$17.70
1979-----	495	505	10	742.50	762.00	19.50	935.55	1,016.00	80.45	935.55	1,163.32	227.77	935.55	1,163.32	227.77
1980-----	495	508	13	742.50	762.00	19.50	990.00	1,016.00	26.00	1,009.80	1,315.72	305.92	1,009.80	1,315.72	305.92
1981-----	495	535	40	742.50	802.50	60.00	990.00	1,070.00	80.00	1,084.05	1,588.95	504.90	1,084.05	1,588.95	504.90
1982-84-----	495	540	45	742.50	810.00	67.50	990.00	1,080.00	90.00	1,158.30	1,620.00	461.70	1,158.30	1,717.20	558.90
1985-----	495	570	75	742.50	855.00	112.50	990.00	1,140.00	150.00	1,381.05	1,710.00	328.95	1,381.05	2,171.70	790.65
1986-----	495	570	75	742.50	855.00	112.50	990.00	1,140.00	150.00	1,455.30	1,710.00	254.70	1,455.30	2,280.00	824.70
1987-89-----	495	570	75	742.50	855.00	112.50	990.00	1,140.00	150.00	1,485.00	1,710.00	225.00	1,485.00	2,280.00	795.00
1990-2010-----	495	620	125	742.50	930.00	187.50	990.00	1,240.00	250.00	1,485.00	1,860.00	375.00	1,544.40	2,480.00	935.60
2011 and later-----	595	620	25	892.50	930.00	37.50	1,190.00	1,240.00	50.00	1,785.00	1,863.00	75.00	1,856.40	2,480.00	623.60
<b>Including medicare:</b>															
1978-----	605	605	0	907.50	907.50	0	1,070.85	1,070.85	0	1,070.85	1,070.85	0	1,070.85	1,070.85	0
1979-----	605	613	8	907.50	919.50	12.00	1,143.45	1,226.00	82.55	1,143.45	1,403.77	260.32	1,143.45	1,403.77	260.32
1980-----	605	613	8	907.50	919.50	12.00	1,210.00	1,226.00	16.00	1,234.20	1,587.67	353.47	1,234.20	1,587.67	353.47
1981-----	630	665	35	945.00	997.50	52.50	1,260.00	1,330.00	70.00	1,379.70	1,975.05	595.35	1,379.70	1,975.05	595.35
1982-84-----	630	670	40	945.00	1,005.00	60.00	1,260.00	1,340.00	80.00	1,474.20	2,010.00	535.80	1,474.20	2,130.60	656.40
1985-----	630	705	75	945.00	1,037.50	112.50	1,260.00	1,410.00	150.00	1,757.70	2,115.00	357.30	1,757.70	2,686.05	928.35
1986-----	645	715	70	967.50	1,072.50	105.00	1,290.00	1,430.00	140.00	1,896.30	2,145.00	248.70	1,896.30	2,860.00	963.70
1987-89-----	645	715	70	967.50	1,072.50	105.00	1,290.00	1,430.00	140.00	1,935.00	2,145.00	132.60	2,012.40	2,860.00	847.60
1990-2010-----	645	765	120	967.50	1,147.50	180.00	1,290.00	1,530.00	240.00	1,935.00	2,295.00	360.00	2,012.40	3,060.00	1,047.60
2011 and later-----	745	765	20	1,117.50	1,147.50	30.00	1,490.00	1,530.00	40.00	2,235.00	2,295.00	60.00	2,324.40	3,060.00	735.60

<sup>1</sup> Wage base estimated to exceed \$20,000 in 1980 and after.  
<sup>2</sup> Wage base estimated to exceed \$20,000 in 1979 and after.  
<sup>3</sup> Wage base estimated to exceed \$30,000 in 1987 and after.

<sup>4</sup> Wage base estimated to exceed \$30,000 in 1982 and after.  
<sup>5</sup> Wage base estimated to exceed \$40,000 in 1986 and after.



Senator NELSON. Our final witness this morning is Mr. Robert Myers, former chief actuary, Social Security system. Mr. Myers, the committee is very pleased to have you this morning.

Your statement will be printed in full in the record. Please proceed.

**STATEMENT OF ROBERT J. MYERS, PROFESSOR OF ACTUARIAL SCIENCE, TEMPLE UNIVERSITY, AND FORMER CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION**

Mr. MYERS. Thank you, Mr. Chairman.

I believe that the social security amendments enacted last year by the Congress were a very well-considered legislative step. They both rationalized the benefit structure and enhanced the financing situation in a very good manner.

The short-term financing problem was completely solved, and the long-term problem was very substantially solved. For this reason I believe, as the previous witness said, that the best thing to do now would be to leave the system alone for a while and consider it later in a more timely manner.

There were several things about the 1977 amendments that I, too, did not like. I did not like the three sharp ad hoc increases in the earnings base, and I preferred, instead, the approach that Senator Curtis had taken of a small increase in the tax rate applicable to everybody, just as had been done many times in the past without any great furor being set off.

The other thing that I would have preferred to see was what this committee and what the Senate did, establishing complete, long-range actuarial balance by having higher tax rates scheduled in the law 20 to 30 years from now. I realize that the Congress will take action before then, but at least the public would then have seen the coming financial burdens.

At the present time, there is a great hue and cry, even a panic, in the press about the financial burdens created by these amendments. As Mr. Ball said, I think these are largely exaggerations. The figure is often quoted about \$227 billion of additional taxes in the next decade. This, I think, is a good estimate, but it must be realized that it is not in terms of current dollars, but rather in terms, in part, of inflated dollars in the future.

Moreover, I think it is very important to look at this matter from a relative standpoint, namely, \$227 billion is only a 14 percent relative increase. In fact, for average-wage workers and even for workers making about 1½ times the average, the increase for the next decade will only be 6.5 percent relatively. It does not seem to me that that is too heavy a burden to bear to put the Social Security system on a sound financial basis.

I believe that any proposals to partially finance the Social Security system from general revenues are undesirable for a number of reasons.

First, as has been frequently stated, there just are not any general revenues available at the moment. Second, I believe that the time-tested principle that benefits have been earned by contributions would be greatly weakened.

Also, I think that the procedure is basically misleading and deceptive, because many unsophisticated people will be led to believe that

they are going to be getting something for nothing, that somebody else is paying for it, or that there is some third party, the Government, that has money of its own.

I noted in the newspaper yesterday two very vivid examples of this. It was stated that, if there were a tax rollback, this would save some taxpayers as much as \$294 next year. This is utter nonsense! It would save them that money on the one hand, but they would also have to pay the general revenues cost on the other hand, and the latter would largely offset the former.

The other statement was in regard to the proposal for equal tripartite financing for social security. The newspaper article said that that plan would cost the Government more than \$30 billion. This is nonsense. Who is the Government? It is only us, the taxpayers. The Government does not have money of its own, as we all know.

I think that we have to face the basic fact of life that taxes underlying general revenues will really be paid by all people, even if they are indirectly being passed on. I certainly agreed with you, Mr. Chairman, in your colloquy with Mr. Bosworth, that you just cannot determine the incidence of taxes. It is like trying to solve the age-old riddles of which came first, the chicken or the egg, or how many angels can sit on the head of a pin. I think that economists can have great intellectual exercise in trying to imagine, through econometric models and computer printouts, just who is paying the taxes. But I think that, after the initial incidence, the situation gets so confused and the taxes so passed on that we really just cannot ever say who really pays the taxes. As you said, Mr. Chairman, the net effect is that, over the past years, people have had an increase in their real income and what makes it up and what takes away from it, no one can ever separate out in the end.

Of course, there is another way of not increasing taxes, by just having printing press money. Then here, too, everybody is going to pay for the cost of the Government subsidy indirectly through more inflation.

If there were to be any use of general revenues, I would suggest several possible principles. First of all, I do not believe that there should be any general revenues introduced into the disability part of the program as against the old-age and survivors part, because they are both equally earnings-related social insurance programs. In fact, if we are trying to say which is more "insurance", I would say that the disability program is more insurance than the old age part, because the essence of insurance is the taking into account of probabilities that a risk will occur to people who are exposed to it. There are certainly far more people who are exposed to the risk of disability than will incur it, whereas the vast majority of people will reach retirement age and will receive retirement benefits.

I believe that one of your suggestions, Mr. Chairman, was to have a 3-year moratorium—in other words, to roll back the tax rates and the tax bases to what they were under the previous law and then to make up the difference in income to the trust funds out of general revenues. I would suggest that, if this were done, I would like to see it done, not by grants from general revenues, but by loans repayable with interest. As a result, the true cost over the long-range operations

of the system would still be borne by its contributors and their employers.

If the hospital insurance program is to be at all financed out of general revenues, I believe that the entire financing should be out of general revenues. In other words, I do not believe that these two financing sources, payroll taxes—or contributions—and general revenues should be mixed together. Do it either one way, or do it the other way.

I would further say that if hospital insurance were to be financed completely out of general revenues, then I think that this should be through earmarked taxes. Then, people will be aware that they are paying something for it and not that it is just coming from general revenues out of the heavens.

Finally, Mr. Chairman, I think that there have been a number of proposals to have income tax credits for a portion of the social security taxes that are paid. I am not at all in favor of this, but I would say that, if I had to make the choice, I believe this to be the least worst procedure, because it would still leave the cost of social security visible, although it would be, in a sense, doing the job with mirrors.

In summary, then, Mr. Chairman, I think that the American people should be economically mature and responsible enough so that they should pay directly and visibly for their social security program rather than have part of the cost apparently come from general revenues that some mysterious third party is paying rather than themselves.

Thank you, Mr. Chairman.

Senator NELSON. Thank you.

Do you have any questions, Senator Curtis?

Senator CURTIS. I want to commend you for the conciseness of your statement. I think you have covered the points that were really bothering us at this time: should we do something, what are the dangers of getting into the area of general funds financing.

You should be a pretty good Congress watcher, too. You have been watching a long time. And I am sure both you and Mr. Ball have been disappointed—sometimes elated, but more often disappointed. Would you be inclined to feel that we probably would have a problem if we started to either give a credit or a deduction for part of the social security tax, that we would have to do the same thing for the civil service contributions and the funds paid in by the railroad retirement.

Mr. MYERS. Yes, Senator Curtis. Of course, it is always a dangerous pastime being a Congress watcher, or particularly a Congress predictor, but I certainly would agree with the views that you were expressing in your colloquy with Mr. Ball that, if you once start down this path of a Government subsidy to the social security system, then it is always easier and seemingly less painless to say "well, let's increase the general revenues proportion just a little bit so that it will not hurt people financially." In the same way, too, then you would have to have similar treatment for the civil service retirement system so as to be consistent. Therefore, that was why it was my view that, if you are going to put general revenues in at all, you might as well provide all of the financing in that manner through, earmarked taxes, and then have it visible that that is what you are doing.

Senator CURTIS. And you mentioned that you had reference to the health insurance?

Mr. MYERS. Yes, Senator Curtis, I did. I am not in favor of financing it that way, but I say if you do a little bit, you might as well do the job completely and make it visible to everybody that this is what you are doing and you are going to pay for it in a different way and show what way that is.

Senator CURTIS. But those who are under the civil service retirement system, the amount that is deducted from their wages out of their pay check is supposed to be taxable, is it not?

Mr. MYERS. Yes, it is, Senator.

Senator CURTIS. And is that also not true of the railroad retirement people? I am inclined to think it is.

Mr. MYERS. In the railroad retirement system now, although the workers originally paid half the cost, they now pay—through some collective bargaining, by taking a smaller pay increase—only the same as workers under social security, and the railroad employers now pay the difference. In other words, the employer now pays under railroad retirement the social security tax rate plus 9½ percent of payroll.

Senator CURTIS. I am getting at what happens to the individual railroad worker when he files his tax return. He does not get to deduct his portion that he has paid in, does he?

Mr. MYERS. No, he does not.

Senator CURTIS. So, my point is this, not to have you predict what the Congress' decision will be, but we should, if we make social security taxes deductible, or possibly so, or give a credit for them, I think we should do it with the full realization that these other groups, civil service workers and railroad workers, will be asking the same consideration.

Mr. MYERS. Yes, I am certain that they will, and they would have a very considerable case in equity to ask for this.

Senator CURTIS. The more attention a person gives to this whole area, the more one realizes how complicated it is and how many angles can affect our people. Do you concur that there would be much to gain on the part of the committees in charge of this if we waited, at least for the most part—probably entirely if we could—for the report of the Commission authorized by the Congress as well as the other Council?

Mr. MYERS. Yes, I certainly think that the action that was taken—although I did not like every part of it, just as Mr. Ball did not like every part of it—was a reasonable action, a sound action, a well-thought-out action. I think that it would be very desirable for the Congress to wait now until it hears from the two advisory groups that had been set up by legislation.

Senator CURTIS. Also, as to the timing of the 1977 Act, it was completed just before a raise in the social security tax burden resulted under the previous law. It might well be that some of the demands to repeal or roll back what was done in 1977 were because it would not be visible for several months, and it might not touch at all the problem that caused the complaint.

Mr. MYERS. I would certainly agree with you, Senator.

Senator CURTIS. I thank you very much. I think you have been most helpful.

Mr. MYERS. Thank you.

Senator NELSON. Thank you very much, Mr. Myers, for your contribution.

Senator Danforth?

Senator DANFORTH. I am sorry I am late, but I wondered if I could ask one question of Mr. Ball and Mr. Myers, to ask them both for their comments.

Last year we were told that we were facing a major problem with social security financing, that OASI and DI were going broke, that we had to act, that we had a \$75 billion deficit we were facing or had to make up over a period of 5 years, something like that. And so we got to work increasing revenues to social security.

And now there has been a tremendous public outcry against what we did. People say that social security taxes are too high, so now there is a tremendous amount of pressure on us to remedy that situation.

So when you think about it, what we can do is limit it. We have something that has to be put on a sound actuarial footing. How do you put it on a sound actuarial footing? Well, you can increase revenues for the funds.

How do you increase revenues for the funds? One, you can increase social security taxes. Two, you can increase other taxes, the crude oil equalization taxes, income taxes, something else and then put those into the social security trust funds.

Three, you can just draw out of general revenue which is now, as Chairman Long points out, at a deficit, and just increase the deficit in the Federal budget in order to finance social security. That is about it.

On the other hand, you can also look at the whole social security system and determine, are there some structural problems in social security that can be remedied? Can you alleviate the tax burden by reducing some of the cause of the tax burden, whether that tax burden comes in form of increased social security taxes or increased income taxes or a crude oil equalization tax, or that tax which is known as inflation.

And there are, it seems to me, some things that could be done to the social security system which may or may not be advisable.

For example, we could take another look at the way in which we decoupled. We could determine whether wage indexing is really the way to go, or we could take another look at universal coverage. Is there some way that we can bring in governmental employees without depriving them of any vested rights?

Or, how about the age at which the benefits accrue? I think it was Congressman Conable that by 1990 we start, 1 month at a time, moving back the age.

Now, let me just ask you this. Is it reasonable to look at the cause question? Should we be examining the cause rather than just the immediate need that the public asks us to meet, namely, reducing taxes?

Second, if we do look at the cause question, the structural question, how long does it take? We have already had all of these studies. When could we come on line with at least a reasonable approximation, or a sense of direction, that we are moving toward?

Third, if there is an unbearable pressure on Congress to do something by way of rolling back taxes or providing a credit or financing social security in part out of the general revenue, how could we accomplish that on a short-term basis and not in a way which, in effect, would preclude long term structural solutions?

Mr. BALL. Senator—

Senator DANFORTH. One thing I have learned in the last 15 months since I have been here is how to ask very long questions.

Mr. BALL. It is a series of questions, I think, Senator.

Certainly there are things that can be done and, I would say, should be done, that would reduce the cost of social security somewhat. I also think there are some things that should be done, on the other hand, that would increase the cost of social security.

Among the things that I think should be done to reduce the cost, I would put first one of those that you mentioned, and that is to move towards universal coverage by including Federal employees under social security, but of course, keeping the Federal civil service system as a separate system supplementary to social security, just as private pensions are supplementary to social security.

There is no reason that people have to lose protection as the result of such a change. But the situation today is that because a Federal employee—and I would include those State and local employees who are not already under social security; two-thirds are under and a third are not—the situation is that Government employees not covered regularly under social security get an unwarranted break by reason of the fact that they can pick up coverage under social security at very advantageous rates by working for relatively short periods in covered employment. This way they get the advantage of the weighted benefit formula that was meant for low-paid people, not for those who are under the system a relatively short time but may have high wages in noncovered employment.

The result is that everybody else in the social security system has to pay higher contributions, amounting for employers and employees combined to about one-third of 1 percent of payroll. Now, such an extension of coverage would reduce the cost of social security by about one-third of 1 percent of payroll and it could be done without damaging protection for civil servants. There are other plans that could be worked out too, it does not have to be just a straight extension of social security coverage the way I have described it. There could be an exchange of credit plan or various other approaches could be taken, but I would put a change in the relationship between social security and Government employee plans as a high priority for reducing costs.

The 1977 amendments call for HEW in consultation with other agencies to report on how to accomplish this purpose. I have forgotten the reporting date, but I think it is a couple of years off. You asked also about the time required to make such a change.

I personally would be very much opposed to changing the wage indexing system that you adopted in 1977. I think it was a major accomplishment to set the benefits as a proportion of wages current at the time a person comes on the roll.

I say that, not only from the standpoint of the protection of the individual, I think it is very important, for the individual to know that the average worker will get 41 or 42 percent of wages payable at the time of his retirement just as the average worker who will be retiring under the wage-indexing system in the next few years will get a benefit equal to that proportion of current wages.

But also I believe what was done was the careful and conservative thing to do. If you were, for instance, to index to prices instead of wages which was suggested by one of the reports to the Congressional Research Service, I believe you understate the cost of what would actually happen in the development of the system. I think the cost of a price-indexed system would look so low that it would seem very easy politically to increase benefits substantially, and then again you would not project the full cost of the liberalized system up to date with wages, but instead to prices and yet it is unlikely that the system would be allowed to play a smaller and smaller role. Ad hoc increases would probably be made keeping it up to date with wages but the full cost of these changes would never be shown.

So both from the standpoint of what I think people have a right to count on and also from the standpoint of correctly accounting for the long-range costs, I think what you did was just right. I hate to see that issue opened up again, sir.

But I do not want to take up all the time in reply to this. Bob, I am sure, has several things to suggest, too.

I did want to make one other point though—you raised the question of not just saving money within the social security system, but changes in social security that might save general revenue funds and have other cost-saving effects.

What I am about to suggest I am sure will be an unpopular proposal and would not be one that I would want to add to a platform in running for office, but I see absolutely no logical reason why the full social security benefit is tax exempt. It seems to me that higher paid people should be asked to pay social security taxes on some portion of their social security benefit.

If you want to make a rough approach to a fairer tax treatment, you could say the employer pays half, the employee pays half, therefore include half of the benefit in gross income for income tax purposes. And most older people would not pay any taxes on social security anyway because they would not have high enough total income. But the higher paid person, of course, would. What I am suggesting would be somewhat analogous to how civil service benefits or benefits in a private contributory plan are treated.

Finally, your question was, well, if you have to do something, what should you do this year, even though you might not want to act—and I think it is better not to act—

Senator DANFORTH. What is the most undoable thing that we could do?

Mr. BALL. Yes.

I had two proposals that I suggested earlier, Senator Danforth, and I will just quickly refer to them. They are in my statement.

One would be to adopt the principle of financing the medicare program one-third by employers, one-third by employees, and one-third

out of general revenues. If you adopted that principle right away, you would in 1979, substitute from general revenues the full \$6.4 billion that would otherwise be raised in social security contributions. This change does not upset the cash system at all and it seems to me to have stability by reason of adopting a new principle, not just postponing the effective date of the 1977 amendments.

The other was to hold down the size of the employee wage base increases. I do think on the merits, one could argue that the size of the wage base increases for employees in the 1977 amendments were somewhat high. Without affecting the long range costs of the system very much at all, one could hold the increases in the wage base for employees at much lower levels than the law now provides. You could do that without affecting the long-range financing because almost all of the money from increasing the employee side of the wage base is later paid out in benefits to higher paid workers. So you could hold that down without really upsetting the—

Senator DANFORTH. Only for the employees?

Mr. BALL. Only for the employees, and the employer base you would let stand as in present law. Mr. Myers, I am sure, has different suggestions.

Mr. MYERS. As usual I can agree with some of Mr. Ball's proposals, and I disagree with others. As to decoupling, I believe that the action that Congress took last year was just fine. I would hate to see it changed. I think that, if we were to move over to a form of price indexing, it would be largely illusory savings, as well as not good benefit design, to tell people that they are going to get relatively lower benefits in the future, because you know that there would be political pressure so that will not happen.

So, it will be thought that there are going to be savings, and they just will not eventuate.

As to coverage, I am very strongly in favor of extending coverage to all workers in the country, which means Federal employees and the State and local government employees who are not now covered would be covered. This will produce some savings to the system, but the point of doing it is not only the savings but also to prevent windfalls. I think that there should be universal coverage so that there is a uniformity throughout the country of everybody having this basic floor protection.

As to your comment about the retirement age being increased, I very heartily favor this over the long run. I think this is going to have to come. It is a very unpopular thing to say currently, because just like proposing taxes on social security benefits, people think that everybody is going to be taxed immediately. In the same way, proposals to raise the retirement age make people think that this is going to happen overnight.

As you pointed out, Senator Danforth, all the proposals have been to do this very gradually, beginning in the distant future. Although these proposals that have been made to date have not met with much public support, I think that this current discussion is the way that it has to be accomplished eventually. It is an idea whose time will come, and the more it is talked about now and in the future people



get used to it and eventually say that it is reasonable. I think that eventually it will occur, and it will solve a lot of the long-range financial problems that are coming 30 years from now.

People should realize that the person who is age 65 in about 30 years from now is going to be a relatively younger person than somebody who is aged 65 now. They will then have longer life expectancy and better health, so that you might well say that, in real terms, age 68 in the year 2000 or 2010 is certainly equivalent to what age 65 was back when the social security system was started in 1935, and it may be more or less like age 65 is today.

Now, as to what could and should be done, I would certainly rather leave the system alone, and I would certainly oppose any general revenues. I would make, however, one suggestion on the earnings bases. I think that the earnings bases, particularly the ad hoc increases after next year will not really produce very much additional financing. In other words, the jump to \$22,900 next year will produce quite a lot of revenue, but the subsequent jumps will not really do so, and I do not think that they are necessary for the short-range financing of the program.

So I might suggest that you could take the action of letting the base go into effect next year at \$22,900 and make changes thereafter completely automatic on both the employer and the employee. This is where I differ from what Mr. Ball suggested. He was saying that this should be done just for the employee. I say that parity should be maintained by increasing the base equally for both employers and workers. I am confident that you would then have enough money on a cash flow basis to finance the program adequately.

The much higher bases that go into effect in 1980 and 1981 under the provisions of the 1977 act really only have the effect thereafter of building up the fund to a very large size. I think that, as the Chairman did as part of one of his proposals—and something that I very much agreed with, even though I did not agree with the basic proposal—the tax schedule should be shifted around a little bit. The rates should be a little lower in the first decade or so, and then a little higher thereafter so as to parallel more closely to the trend of benefit payments and not build up a large fund.

Thank you, Mr. Chairman.

Mr. BALL. Mr. Chairman, I do not want to get into a debate with Bob here, but just for the record, I want to make it clear that I do not favor, at this time, putting into the law a change in the first eligibility age for retirement benefits. That does not mean, though, that I disagree with the general line of argument that says we ought to do everything we can to increase employment opportunities for older people, particularly as we look into the next century where we have this huge bulge in the elderly population.

My thought is that with a greater opportunity to work in the next century, more older people will work. I hate to change the age of first eligibility because some will not be able to work and yet they will not be disabled enough to get social security disability benefits, and they will not have jobs either.

But those who can work, if there is an opportunity, some at least will, and that also will reduce the cost.

Senator DANFORTH. The biggest saver, the biggest saver, on the long term problem would be to change the indexing method, is it not?

Mr. MYERS. It would, if you could make it stick, but I just do not think that you could possibly hold the line and not have ad hoc benefit increases. I think that any savings would be largely illusory, and they just would not occur in practice.

Senator DANFORTH. You mean we would give them away?

Mr. BALL. Senator Danforth, one way to look at this issue is to look backwards. Supposing the social security system had been established in 1900, and if at that time everybody said, "Well, the average worker ought to get a replacement rate of benefits to recent earnings of around 41 or 42 percent, but, they said, people are going to be a lot better off by 1975 and they will have saved more money and they will be in a position to take care of themselves, so we will establish a 42 percent rate for 1900, but in 1975 we will reduce that replacement rate to 25 percent. That is about what this price indexing proposal does over the next 75 years."

Well, a 25 percent replacement rate in 2050 would be just as inadequate as a 25 percent replacement rate seems today.

You can only look at these things in relative terms. A retirement income is only as good as the degree to which it replaces the level of living people are used to, and that 1900 decision—I agree with Bob—would not have been allowed to stand in 1975. The 25 percent rate would not have been allowed to occur. Benefits would have been kept up to the 42 percent rate, but you would not have anticipated the cost.

Senator DANFORTH. Thank you.

Senator NELSON. Do I understand both of you to say a possibility was to allow the wage base rate in the 1977 law to go into effect for 1979 and thereafter rely on the automatic increase?

Mr. MYERS. The only difference between us was that Mr. Ball wanted to do that for just the employees, while I would do it for both employers and workers.

Mr. BALL. I just wanted more money.

Senator NELSON. Do you happen to have in your head, or in your figures there, what would the wage base be in the year 2000?

I am trying to get some ballpark figure of what wage base we would be taxing under operation of the law 20 years from now.

Mr. MYERS. I am sorry, Mr. Chairman, I would not want to take a guess at that, because the power of compound interest over 20 years, as you know, is a very powerful thing. I could easily supply it for the record.

Senator NELSON. I would appreciate it if you would. I would like to have a comparison between what that would mean in terms of taxation, of wage base level versus what the 1977 law did and what the 1972 law did.

So if you would submit that for the record, I would appreciate it.

Mr. MYERS. I would be glad to do that, Mr. Chairman.

[The following was subsequently supplied for the record:]

## MAXIMUM TAXABLE EARNINGS BASIS UNDER SOCIAL SECURITY

Year:	Present law	Previous law	Proposal of Robert J. Myers
1978.....	\$17,700	\$17,700	\$17,700
1979.....	22,900	18,900	22,900
1980.....	25,900	20,400	24,600
1981.....	29,700	21,900	26,400
1982.....	31,800	23,400	28,280
1983.....	33,900	24,900	30,000
1984.....	36,000	26,400	31,800
1985.....	38,100	27,900	33,600
1990.....	50,400	36,900	44,400
1995.....	66,600	48,900	58,800
2000.....	88,200	64,800	77,700

<sup>1</sup> Prescribed by law; all other figures based on what would happen under the automatic-adjustment provisions according to estimates of the Office of the Actuary, Social Security Administration for 1980-85, and according to the assumptions in the 1977 trustees report for years after 1985.

Senator NELSON. You both are taking a different position. Mr. Ball would allow the operation of the 1977 wage base to continue into effect employers; you would leave the operation of the law to affect both of them equally.

Mr. Myers, would your proposal adequately fund the system if you did that?

Mr. MYERS. Mr. Chairman, my proposal would adequately fund it on a short-range basis but, in the long run, you would need some additional money either in part, say, from the savings from covering governmental workers or possibly a slightly higher tax rate beginning in 1990 or the year 2000, or something like that. But, from the cash flow standpoint, I am confident there would be enough money to get you past the particularly troublesome financing point of 1980 and 1981.

Mr. BALL. Mr. Chairman, would it be useful for the record if the effect of freezing both, on the long-range costs, were put in at this point?

Senator NELSON. If the what?

Mr. BALL. If the effect on the long-range costs of the system, of dropping the 1980 and 1981 ad hoc increases in the wage base for both employers and employees were put in the record?

I am not offering to do it; it would take an actuary, either Bob or the social security actuaries, but I think it would be an interesting figure. I am talking about what would be added to the present actuarial imbalance by not having the employers base go up after 1979, except in accord with average wage increases.

Mr. MYERS. Mr. Chairman, I would be glad to do that, and of course I will check with my actuarial colleagues at the Social Security Administration. I think that this is a computation that can relatively be done easily, but I would check it out with them to be certain that they agreed.

Senator NELSON. If you would be willing to help for the record.

[The following was subsequently supplied for the record:]

[Memorandum]

April 15, 1978.

From: Robert J. Myers

Subject: Financing Aspects of Proposal to Eliminate Ad Hoc Increases in Earnings Base in 1980-81.

This memorandum will present cost estimates for a proposal that would eliminate the two ad hoc increases in the maximum taxable earnings base under the Old-Age, Survivors, and Disability Insurance system and the Hospital Insurance

system that were established for 1980 and 1981 by the 1977 Act—namely, to \$25,900 in 1980 and to \$29,700 in 1981. Left unchanged would be the increase to \$22,900 in 1979. The bases for 1980 and 1981 (and future years as well) would be determined under the automatic-adjustment provisions, in accordance with changes in the general wage level—and are estimated to be 24,600 in 1980 and 26,400 in 1981. As a result, for 1981 and after, the earnings bases (and the taxes for the maximum-earnings case) would be 11 percent lower than under present law.

The short-range cost estimates for the OASDI and HI systems are shown in Tables 1 and 2, respectively (data supplied by the Office of the Actuary, Social Security Administration). The balances in the OASDI trust funds under the proposal are, of course, somewhat lower than under present law in all years after 1979, but nonetheless the reserve ratio (fund at beginning of year as percentage of outgo during year) never falls below the "critical" level of 25 percent, and it rises steadily after 1981. Similarly, the balances in the HI trust fund under the proposal are lower than under present law, but they are higher in each year after 1982 than under the previous law.

As to the long-range OASDI financing status under the proposal, the actuarial deficiency would be increased by 0.17 percent of taxable payroll—to 1.63 percent of taxable payroll (or slightly less than it would have been under the original proposal of the Carter Administration). This increase in the long-range actuarial imbalance could be counterbalanced either by (a) compulsory coverage of Federal employees or (b) an increase in the employer and employee tax rates of 0.1 percent each beginning in 1990.

ROBERT J. MYERS.

TABLE 1.—ESTIMATED SHORT-RANGE PROGRESS OF OASDI TRUST FUND UNDER PROPOSAL TO ELIMINATE AD HOC INCREASES IN EARNINGS BASE IN 1980 AND 1981

Calendar year	Proposal			Present law		
	Income <sup>1</sup>	Outgo	Fund at end of year	Reserve ratio <sup>2</sup> (percent)	Fund at end of year	Reserve Ratio (percent)
1978	\$92.4	\$97.2	\$31.0	37	\$31.0	37
1979	106.5	106.9	30.7	29	20.7	29
1980	118.1	117.1	31.7	26	32.7	26
1981	134.4	127.4	38.7	25	42.3	26
1982	146.7	138.3	47.2	28	54.2	31
1983	157.4	149.2	55.4	32	66.3	36
1984	168.4	161.1	62.7	34	78.0	41
1985	189.0	173.8	77.9	36	98.2	45
1986	203.1	187.2	93.7	42	119.6	52
1987	217.1	201.5	109.3	47	141.3	59

<sup>1</sup> Includes interest income.

<sup>2</sup> Fund balance at beginning of year as percentage of outgo (benefits and administrative expenses) during year.

TABLE 2.—ESTIMATED SHORT-RANGE PROGRESS OF HI TRUST FUND UNDER PROPOSAL TO ELIMINATE AD HOC INCREASES IN EARNINGS BASE IN 1980 AND 1981

Calendar year:	Proposal			Present law		
	Income <sup>1</sup>	Outgo	Fund at end of year	Reserve ratio <sup>2</sup> (percent)	Fund at end of year	Reserve Ratio <sup>2</sup> (percent)
1978	\$19.2	\$19.0	\$10.7	55	\$10.7	55
1979	23.1	22.2	11.6	48	11.6	48
1980	25.5	25.7	11.3	45	11.5	45
1981	33.4	29.7	15.0	38	15.9	39
1982	36.3	33.9	17.5	44	19.1	47
1983	38.8	38.5	17.7	45	20.3	50
1984	41.2	43.7	15.3	41	19.0	47
1985	45.1	49.1	11.2	31	16.1	39
1986	51.0	54.9	7.3	20	13.6	29
1987	54.1	61.2	.2	12	8.2	22

<sup>1</sup> Includes interest income.

<sup>2</sup> Fund balance at beginning of year as percentage of outgo (benefits and administrative expenses) during year.

Senator NELSON. I have another followup question to that question Senator Curtis asked you, Mr. Ball, and I understood you to say that we already had the answers in writing and Senator Curtis did not think what he was asking about was in writing. And I am not sure I understand either his question or your answer.

I was assuming his question was this, and if it was, I think it would be helpful to have it. We were discussing the question of how well people understand what their benefits are, or will be, relative to the wages and salaries of future years.

In other words, I understood you to reply that you are maintaining an average replacement rate of 42 percent. It seems to me—and I think that is what Senator Curtis was looking for—that it would be very useful and valuable educationally for both Congress and the public to have a projection of the average wage in the year 2000, taking into consideration productivity and inflation rates. What is the person who is now making \$20,000 projected to be making in the year 2000?

What social security tax will he be paying, and what retirement benefit will he be eligible for at that time? People look at a wage scale of today and are alarmed because they have a tendency to view it as static, and are alarmed at what it looks like several years down the road.

And, as I said earlier, we got this figure from the Social Security Administration, if you take a \$10,000 wage earner today and project a 5.75 percent increase per year in the year 2050, that would be \$650,000. That \$10,000 a year earner, if you froze his taxes where they are and the wage base stays where it is, would be able to buy about two meals a month on that retirement.

Could we get some figures that would show that?

Mr. BALL. Yes, Mr. Chairman. On the first part of it, the question of what people will get at different earnings levels, I have put that in the attachment to my statement. That is table 1. But the table does not have the second part—what people would pay in.

Now, the question of figuring your “money’s worth” under social security, as I am sure you realize, is both very complicated and, at the same time, very sensitive to the assumptions you use when you take into account disability and survivors protection and all of the various possibilities that have to be taken into account.

And, by and large, until quite recently, the social security actuaries have been somewhat reluctant to get into this issue. However, my understanding is that they are about to publish a report which, under a very special set of assumptions, does address this question for people at different ages, taking males separately and females separately. The report will show what people get in the way of protection—not just dollars in retirement, but protection—including survivors and disability protection—as compared with what they would be paying in. Of course, taking interest into account, and so on.

So the further step which I think you and Senator Curtis were asking for, is now being worked on seriously and I think they do have some preliminary material.

Mr. MYERS. What Mr. Ball said is correct. The Office of the Actuary of the Social Security Administration is putting out some material on this subject and, being good actuaries, they are doing it in a very

guarded fashion, saying that so much depends on the assumptions. This is particularly true with regard to any interest rate that you use. If the interest rate is changed by a half a percent or 1 percent, then you get quite a different story.

I still am of the view that I have been for years that, if you could really analyze this precisely, the answer is that people do get their money's worth. Even the highest paid young worker gets his money's worth out of the system, if you take into account all contingencies, like the chances of getting married, disabled, retiring, and so forth.

So often the examples that show that social security is a bad buy make certain assumptions to start with that are going to obviously lead to that answer. They will take a single person who is never going to get married and have children, or they will use a very high interest rate, as though the person can make, say, 8 or 10 percent interest on his own investments and then forget that on the other side of the coin there is the factor of inflation as it affects benefit amounts. As you well know, the social security benefits are, in a sense, inflation-proof in that they are automatically adjusted for changes in the CPI.

These are very difficult calculations to make and really, if you want them to be precise, it is just impossible because of all of these factors.

Senator NELSON. I understand what you are saying and I know how difficult that is. When you say to someone who paid the \$940 last year that in the year 1990, 12 years from now, he or she is going to be paying \$4,000, it is a real shock, unless you include in that discussion the cost of living in 1990, the wage level, and so forth.

I know you have to make some assumptions, but it would be helpful if you could, as a practical matter—

Mr. MYERS. Yes, Mr. Chairman. That, of course, can be done very easily and precisely. What I was saying that cannot be done precisely is to try to figure out and take into account all the possibilities, whether the person is going to live or die and so forth.

If the person knows that he is going to live to age 100, it is a good buy. If he knows that he is going to die at age 65, a month after retirement, then it is not a good buy. But that is the case for any type of insurance. If you knew exactly when you were going to die, you would know whether or not to buy a life insurance policy, or when to do so.

Mr. BALL. Mr. Chairman, I just wanted to be sure that I had been clear that attached to my statement is an estimate of where earnings will go, year by year, and where benefits will go year by year so that people can see how much they would get under the assumptions used. The table goes up to the year 2000.

Senator NELSON. If you say to somebody today, you will pay this much in and you will be able to retire, at, say \$10,000 in 1995. To many people who do not think about it—and maybe most of them do not think about it—that might sound like a pretty good retirement. But in 1995, it is not going to be very much.

Mr. MYERS. As you say, Mr. Chairman, it is entirely a matter of things being relative that count. Not the absolute dollars, because a dollar today is not worth what it was in 1900, nor will it be what a dollar will be in the year 2025.

Senator NELSON. One more question. You commented on coverage of Federal employees, Mr. Ball, and we are going to have hearings on that, so I do not intend to go into it in any detail.

But, as I understood your comment, you would merge social security and the Federal retirement system and you would maintain the Federal retirement system?

Mr. BALL. Yes, Mr. Chairman. I think it is important that it really not be phrased as merging the two systems. What I think should be done is to treat Federal employees as private employees are treated who are under a pension system. In other words, Federal employees would be under social security and, then, they would have a separately organized retirement plan just as the American Telephone and Telegraph Co. or the American Express Co. does. A separately organized plan—nothing to do with social security except it takes into account social security—a plan of their own which is supplementary, built on social security.

But it still operates separately and the retired workers get additional amounts. The object would be to have the combined amount of social security and this new, modified civil service, independent retirement system—the combined amount from the two—give as much protection as the civil service retirement system now does alone.

I think you should design the system so that the civil servant did not lose out, and the combined amounts were as much as is payable under the present civil service system, but I would keep the systems separate.

Senator NELSON. Well, you have a couple of serious questions there, it seems to me. In some places they are combined. Under the Wisconsin State retirement plan, the employee makes a contribution and his contribution goes to social security, to cover him fully on social security, and another part of it goes to the Wisconsin retirement plan.

Mr. BALL. But there is a separate retirement plan.

Senator NELSON. Oh, yes. An absolutely separate fund.

And, as of the last time I looked at it, it is actuarially sound, which many of them are not, because you cannot amend Wisconsin's system on the floor of the legislature. It has to go for an actuarial report first, which would make good sense here in the Congress. And everytime the actuarial report comes back it scares people and they don't keep on increasing the benefits, so the Wisconsin retirement system is sound.

However, there is no way in the world that we can continue the current benefit structure—you have people who are covered by the Federal retirement system and have a long-term investment in it and you cannot turn around and take that away. They have earned it, or at least they have been covered by it and have anticipated receiving its benefits, and, if you were going to eliminate the system, you would have to grandfather.

One cannot defend a system in which Congress and the Federal employees retire based upon  $2\frac{1}{2}$  percent times the number of years worked times the last 3 years average earnings versus a social security in which you average out the earnings over a lifetime, minus 5 years, or something like that, and the benefits are much higher than the amount of contributions—in other words, we are making the people under social security pay for the system, they and the employer, and Federal employees are not. But if we are going to do what you suggest, it seems to me you ought to grandfather people who are in there and let the system die and have social security and give them an IRA plan or something.

Mr. BALL. Mr. Chairman, I am sure that Mr. Myers will have a comment on this, too, but I wanted to make clear for the record exactly

what I believe should be done, and that is, I believe that the civil service retirement system should be kept as an independent system, but modified, the provisions in it changed; and that, at the same time, social security coverage should be extended to Federal employees. The Federal civil service system would then have been modified in such a way that the two work together to provide a level of benefits comparable to what civil servants now have from their system alone.

But you should get it out of a combined system which is like the Wisconsin retirement fund. It is a separate system, built on social security. You cannot just add the two together.

Senator NELSON. If I am not mistaken, you would just about have to double the contribution, put people up into the 15 percent rate.

Mr. MYERS. You are quite right, Mr. Chairman. You cannot just add the one on top of the other, both because of the very high contribution rate that would result and, likewise, the unreasonable benefits that would result.

But it is possible, as Mr. Ball says, to have a coordination of the system so that each is independent of the other, just as the private pension plans of most industrial companies coordinate with social security, and I am sure that your Wisconsin retirement system does too.

I would also very strongly agree with you, and I am certain that it can be done, that all of the accrued rights to date can be protected.

An example of this was what the Congress did with the railroad retirement system under which there were many undue benefit windfalls in the past because the railroad workers also worked under social security. When Congress fixed this situation up, all these windfalls that had accrued to date were preserved, for employment up through 1974, but for work after 1974 there would be none of these windfalls.

Senator NELSON. I understand and agree with that. However, I recognize that the current Federal retirement system has some differences from social security. They offer some benefits in social security that are not in the Federal system.

However, the replacement rate in the law we adopted—the low replacement rate is 33 percent, is that not correct, for the person in the highest bracket?

Mr. MYERS. Yes, it is around that.

Senator NELSON. Well, as an actuary, you know right off the top of your head without getting your pencil out that the replacement rate of a lifetime under social security for the top bracket contributor is 33 percent and the replacement rate for a Federal employee today after a lifetime in the Federal service is 80 percent. And we are fully funding the social security one and obviously way underfunding, from contributions by the employee, the Federal system.

Mr. MYERS. Under this approach of a coordinated system, if employees were under social security, they would get the 33 percent from social security, at least up to the earnings base, and then the rest of the 80 percent would be under the supplementary independent civil service retirement system.

Senator NELSON. But then what you are saying to the public is that you are going to give a better program forever to Federal employees than they can get.



Mr. MYERS. It is just like, say, that U.S. Steel Co. has a better package for its employees because it has social security plus its own plan.

Senator NELSON. But I am talking about equal contributions to your Federal plan and equal contributions to the social security.

Mr. BALL. Well, I think we have to get more into the situation in the present civil service retirement system. I think some of your questions are directed at that and we have not quite responded.

Social security, after the 1977 amendments, for all intents and purposes, is fully financed, solely by employer and employee contributions.

With the civil service retirement system, on the other hand, we have a more complicated situation—I am talking now not about the congressional part of the system but the larger system. The employee pays 7 percent and then the individual agencies carry 7 percent in their budget. But, in addition to that there is a major payment out of the general revenues of the Federal Government as a subsidy to the system and I think I have seen estimates by Mr. Myers that show it is really not a 14 percent system, but in the long run it is something more than a 25 percent of payroll system as it now stands because I think your 25 percent estimate did not even take into account the cost of living increase.

Mr. MYERS. That is correct. The total cost of the civil service retirement system is far more than the 14 percent of payroll that is visible to most people. The total cost is at least 25 percent and possibly as high as 32 percent of payroll.

Mr. BALL. You could—I do not know whether you want to get into it this morning, but I think there are some parts of the Federal civil service system which may not be necessary to preserve for new employees. The very early retirement provisions that allow people to leave at 55 with no actuarial reduction and allows them to take other jobs and build up additional protection in those new jobs while getting benefits—these provisions may be more liberal than you want for the long run. A way of phasing out such provisions, would reduce the Government subsidy, would be to apply new provisions only to new employees and then you would not have interfered with—

Senator NELSON. I don't want to get into it in any depth right now because we are going to have some hearings on it pretty soon and we may want your viewpoint on it then.

Senator DANFORTH. I would just like to quickly recap this point, because I threw out the idea last fall in a finance committee markup about the possibility of bringing in Federal employees and it was about 11 in the morning, as I recall, that I just off the top of my head suggested it, without even offering an amendment. By noon, my office was filled with lobbyists for Federal employees.

It is not true to say that the mail on the Panama Canal is the most lopsided mail that I have received. The mail on universal coverage is the most lopsided mail that I have received as a Senator.

At last count, my mail on the question of universal coverage was 843 letters against it, 1 letter in favor of it.

Now, that is why I want to recap what I understand the situation to be. It is possible, as I understand it, by some form of integration of social security with a separate Government pension program to develop a program which would one, lock in all of the vested rights of Federal

employees that they now have; two, provide them with the same benefits that they now get, although in the form of two checks rather than one; three, not require additional payin by them; and four, improve the short term financing problem of social security. Is that not right?

Mr. MYERS. You are quite correct, Senator Danforth. That could be done, and I think it was always the intention that that would be done. However, when universal coverage was proposed, the Federal employee groups come down in opposition like a swarm of bees. In part, perhaps, this is so because they do not listen. They do not understand what the proposal is.

Senator DANFORTH. That is why I want to make it clear that it is possible to accomplish it. It would help the social security trust funds. It would put them on a better basis. It would help the short term social security financing problem. It would help the ordinary citizen who now feels that he is suffering financial burdens because of social security. It would help the public's confidence in the system because the public, I think, cannot understand how a Congress consisting of 535 people, a President, and a Social Security Administration, consisting of many people, can all gang up, propose increases in their taxes, when not a single person in that group has to pay another dime as a result of social security tax increases.

So I think that it would help the public's perception and it would help the short term social security financing problem, but it would have no negative effect, no negative effect, on the Federal employee, as I understand it, other than he would have to endorse two checks rather than one.

Mr. MYERS. Senator Danforth, I think that what you say is quite correct. There is only one point where there would be any valid objection from Federal employees, namely those who hope to manipulate the system and get windfalls by having a career in Federal service and then either moonlighting or working under OASDI for some time after retirement or other separation from service. I might say that I am a vivid example of that. I did not do it intentionally, but it is going to work that way for me.

I left Federal service in 1970, and I have been under OASDI coverage since then. My primary benefit is about 80 percent of what it would have been if I had been in social security the entire 40 years of my work life. The only offset to that, as far as the social security system is concerned, is that, although I am now 65, I do not intend to retire and take that benefit. I intend to keep on working indefinitely into the future.

But this is the type of windfall that occurs now because, Federal employees can have a career under civil service retirement and then go out and pick up a very substantial social security benefit—not necessarily a minimum one. Of course, those who pick up a minimum benefit by just working enough to get their needed quarters of coverage get a larger relative windfall.

But the big advantage of universal coverage, I think, would be to stop these windfalls and that is where the social security system would gain. Such coverage would not hurt a career Federal employee. It would only have an adverse effect on those who either intentionally or

unintentionally will obtain the windfalls from social security by getting sufficient coverage by employment outside of the Government.

Senator NELSON. Thank you very much, gentlemen.

Senator DANFORTH. Thank you.

[The prepared statement of Mr. Myers follows:]

**STATEMENT OF ROBERT J. MYERS**

Mr. Chairman and Members of the Subcommittee: I am currently Professor of Actuarial Science at Temple University, and I also do extensive consulting work in the field of Social Security and employee benefits.

I was Chief Actuary of the Social Security Administration from 1947 until my resignation in 1970. Before 1947 and back to 1934, I held other actuarial positions with the Social Security Administration, and its predecessor agencies. At present, I am a member of the National Commission on Social Security, established by the 1977 Amendments. As to my professional qualifications, I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

The views that I am expressing here are solely my own and are not necessarily those of any organization with which I am affiliated.

With much regret, and with due respect, Mr. Chairman, I am constrained to say that for reasons that I will bring out hereafter, I am strongly opposed to the provisions of S. 2503, with one exception. I agree with the feature in the bill which provides that the schedule of OASDI tax rates beginning in 1985—especially considering the increase in 1990—could be revised downward until about the year 2005, and then should be revised upward as compared with present law. This would have the desirable effect of not portraying excessively large increases in the balances of the OASDI trust funds in the next two decades following 1985.

For similar reasons, I am opposed to the provisions of S. 2501.

*Financing status of OASDI system after 1977 amendments*

I strongly believe that the 1977 Amendments were a great step forward in restoring the solvency of the OASDI system over the long range. Despite the many excellent things done by this legislation, there were two points on which I would have preferred other action.

First, the ultimate tax rates beginning about three decades from now should have been somewhat higher, so as to result in full actuarial balance, rather than leaving a long-range deficit averaging 1.46% of taxable payroll. It is significant to note that the Senate version of the legislation would have accomplished the desired result of long-range actuarial balance.

Second, I did not believe it desirable that the maximum taxable earnings base should be increased by the three ad hoc jumps in 1979-81. I particularly did not believe that \$1,800 of the increase in 1981 was justifiable, because it arose solely as a result of the amendment by Congressman Fisher eliminating compulsory coverage of governmental employees, which was rather an illogical method of financing such an amendment. Instead of these increases in the earnings base, I preferred the approach taken by Senator Curtis of increasing slightly the tax rates, as has been done so often in the past—which amendment lost by only one vote on the Senate floor.

At the present time, there is an undue and misleading cry of crisis—even panic—about the financial effects of the 1977 Amendments. One frequently hears that this legislation increases taxes over the next decade by \$227 billion, a stupendous figure. It is also stated that individual taxes will be tripled as between 1977 and 1987. Both figures are correct under certain circumstances. However, not all of the facts are presented and, accordingly, quite erroneous conclusions are drawn.

For one thing, the dollars being referred to for future years not today's dollars, but rather those after allowance is made for assumed inflation. The \$227 billion of additional taxes over the next decade is actually only about 14 percent higher than would have been levied under previous law.

The stated threefold increase in taxes for individuals applies only to those who currently earn more than \$25,000 per year. And even then, proper analysis would point out that the taxes for such an individual would—in large part because of inflation—have been doubled under previous law. Accordingly, the

correct increase for this group is a 50 percent one, not 200 percent. Even so, this is a very significant increase, and one that, in my opinion, was undesirably caused primarily by the sharp ad hoc increases in the taxable earnings base. Workers currently at the \$17,700 level or lower will, on the whole, have their taxes for 1978-87 increase by only 6.5 percent under present law as compared with previous law.

#### COMMENTS ON 2503

S. 2503 has the primary purpose of eliminating payroll taxes as a financing support for the Disability Insurance and Hospital Insurance programs, leaving only Old-Age and Survivors Insurance so financed. The effect of this on payroll taxes would be to reduce such taxes in all future years for persons at all earnings levels, despite the sharp ad hoc increases in the earnings base in 1979-81.

A number of arguments have been advanced in favor of such action, and I shall take them up in turn. It is significant to note that the complaint against the higher taxes has come primarily from those now earning more than about \$18,000 per year, because those at lower earnings levels will have relatively small increases in their payroll tax rates over the years—much less than has occurred at many times in the past, when there were few complaints from the public.

#### GENERAL CONCEPT OF GOVERNMENT SUBSIDIES

I believe that financing any part of the OASDI or HI programs from general revenues or a government subsidy at the same time that there is also financing through payroll taxes is extremely undesirable. The presence of government subsidies would very likely change the general character of the system for the worse. It will weaken the concept that the benefits involve an insurance right and have not truly been "earned" by the recipient. Also, introducing even a small amount of government subsidy on an ongoing basis will likely loosen cost controls and will be like an alcoholic taking "just one little drink".

Another significant factor about a government subsidy to OASDI or HI that has been so well brought out by so many is that there just isn't any money in the General Treasury currently.

But my primary objection to a government subsidy to OASDI or HI is that such a procedure is basically misleading and deceptive. Many unsophisticated people will believe that, through this process, they will get something for nothing—or, in other words, that somebody else will pay for their benefits. In fact, some might even be so naive as to believe that the General Treasury has money of its own that could be used for these purposes.

Any informed person, of course, knows that financing of OASDI and HI from general revenues will result in tax burdens of the same dimensions on the taxpayers of the country, who are essentially the same people. In other words, if new taxes are levied to obtain the necessary general revenues, they will very likely, in the long run, be paid by virtually the same people who are subject to the payroll taxes—and probably to about the same extent individually. It is true that the initial incidence of any new taxes may appear to fall less heavily on some groups than others. But over the long run, such incidence will undoubtedly change, and it is really impossible to determine. I believe that economists who make extensive theoretical studies with econometric models and computer runs are living in a dream world if they believe that they can precisely determine the incidence or regressivity of any tax.

It is possible, of course, that new taxes would not be levied to meet the general revenues needed under S. 2503, although I would urge the sponsors to responsibly propose the tax source therefor in a specific manner and, in fact, to provide for such taxes to be earmarked for this purpose. Under such circumstances of not raising new taxes, the result would be printing-press money. This, in turn, would create additional inflation. Thus, in the end, the cost would really be borne through higher prices by the entire population, falling largely on the same covered workers who think that they will have higher net incomes because of lower payroll taxes under the bill.

It has been argued in favor of financing Social Security in part through general revenues that the payroll taxes are regressive. In my opinion, this is not the case when the full picture of both benefits and taxes is viewed.

It is also frequently pointed out that many workers pay more in Social Security taxes than in federal income taxes. This argument is really like com-

paring apples and baseballs. I view Social Security taxes as individuals' expenditures for a type of personal service and, therefore, quite different from other taxes. I believe that people should have their personal dignity retained by paying the same rate for personal expenditures as do other people and meet the full cost thereof, rather than establish a caste system of "bargain" rates. If there is a problem of insufficient income for those with low earnings, it should be solved directly—namely, through the income tax route, such as the earned income credit for families with children, or through some other incomes program, even including recognition of Social Security taxes as deductions or credits in the computation of income tax liability—rather than indirectly by reducing the generally-applicable normal cost for a particular type of expenditure, such as Social Security contributions.

#### FINANCING OF DI AND HI FROM GENERAL REVENUES

S. 2503 would finance DI and HI completely through general revenues, but would leave OASI financed completely from payroll taxes. Why should there be this differentiation? Some people would assert that DI and HI are not truly "insurance", but rather are "welfare" and thus should be financed from general revenues. In my opinion, this is not at all correct.

I believe that OASI, HI, and DI are all truly "insurance" in the broad sense of the term of a pooling of risks in a program that is governmentally administered and has definite provisions for payment of benefits as a right, and likely, definite financing therefor. This, of course, is not the definition that applies to private insurance, because the elements of contractual rights and individual equity are not present in Social Security, but this is what essentially distinguishes social insurance from private insurance.

Those who assert that HI is not "insurance" do so on the grounds that the benefits are not earnings-related, as are those in OASDI. To my mind, this is not a sufficiently distinguishing characteristic, because HI still has the broad sharing of the risks, and, furthermore, OASDI does not by any means have a strictly proportionate relationship between benefits and the previous earnings level.

When we consider DI, which has earnings-related benefits, I completely fail to see any reason why it should be called "welfare" instead of "insurance". Actually, there is more of an insurance element in the disability benefits than in the old-age benefits, because there is only a relatively small probability that an insured worker will receive the former, whereas there is a very high probability that most workers, particularly the older ones, will receive retirement benefits.

#### *Possibility of Government subsidy to social security program*

If I were asked to state what I believe to be the "least worst" approach to financing the Social Security program partially through direct general revenues, my suggestion would be to finance the HI program completely from general revenues. At the same time, of course, the benefit protection should be made available to all persons in the country who meet the age or disability requirements, rather than only protecting insured workers. Moreover, as an inseparable part of such a proposal, the general revenues would be financed completely by a highly visible, special earmarked tax, such as a fixed percentage of adjusted gross income for income tax purposes or a fixed percentage of the actual income tax payable.

A perhaps preferable approach to take temporarily, if the Congress feels a need to re-examine the financing procedure adopted in the 1977 Amendments, as the Chairman of this Subcommittee has suggested, would be to provide for the tax rates and taxable earnings base for 1978-81 to revert to what was contained in the law previously and then for loans from the General Treasury, repayable with interest, representing the difference between the tax receipts on the two bases.

[Thereupon, at 11:35 a.m., the hearing in the above-entitled matter recessed, to reconvene at the call of the Chair.]

## APPENDIX A

### COMMUNICATIONS RECEIVED BY THE COMMITTEE EXPRESSING AN INTEREST IN THESE HEARINGS

#### STATEMENT OF ANDREW J. BIEMILLER, DIRECTOR OF LEGISLATION, AFL-CIO

The AFL-CIO urges the subcommittee to help preserve the United States industrial fastener industry and the jobs of American workers in the cities and towns where this crucial industry is located. The Trade Act of 1974 specifically allows the Congress, by majority vote in both Houses, to disapprove a Presidential decision that ignores the advice of the International Trade Commission on relief for injured United States industry. The AFL-CIO believes the fastener decision urgently requires action by the Congress.

The industrial fastener industry underlies the industrial base of the United States. Nuts, bolts and large screws are necessary parts of economic activity here. The injury from rapid increase in imports of industrial fasteners has been documented by findings of fact throughout the government.

The industry has twice sought relief under Sec. 201 of the Trade Act of 1974. The International Trade Commission denied relief to the industry in 1975. But on December 12, 1977, the second time around, the industry was declared injured by a 3 to 1 majority of the International Trade Commission and higher tariffs were recommended. The ITC found:

Imports have risen from 21 percent of the United States market in 1968 to 45 percent in 1977.

Comparing the first six months of 1975 to the first six months of 1977:

Sales of the domestic industry declined from \$407 million to \$338 million.

Producers' shipments fell from 640 million pounds to 496 million pounds.

The average number of workers has dropped from approximately 15,300 to 13,000, a loss of 2,300 jobs.

Profits have declined from \$58 million to \$40 million.

Four U.S. producers in the domestic industry ceased production.

Job losses have continued to plague the industry. Employment dropped between 1976 and 1977—and is still below 1975 recession levels. (See table 1.) The Department of Labor has certified 19 petitions, covering over 4,000 workers as eligible for trade adjustment assistance since 1975.

The Labor Department has surveyed the firms in this industry and found that much of the workforce includes skilled machinists, tool and die makers and heat treaters, skills which have been developed from experience and training. The workers in this industry have a higher level of education than workers in all manufacturing industries.

Losses of such skilled jobs cannot be remedied by vague data about unemployment rates. Many of the locations where bolt, nut and large screw production exists have unemployment rates below the national average, according to the United States Department of Labor, but that national average was 6.6 percent in September 1977, still a recession level of unemployment. Furthermore, the unemployment in inner cities of Philadelphia, Cincinnati, Cleveland, is worse because unemployment rates are even higher there.

The Labor Department also indicated that "Provided appropriate job opportunities materialize, the Comprehensive Employment and Training Act (CETA) programs appear to be capable of meeting the training needs of many of the displaced workers in the present fiscal year." This type of analysis gives no hope at all to American workers. It cannot make up for the precipitous loss of jobs—from 20,232 in 1969 to 13,873 in 1975 and down to 12,744 in 1977.

In short, the United States Department of Labor's data shows that these workers in the United States will be displaced and have been displaced, often from skilled jobs, often in central cities where other jobs are not readily available. But

even if other jobs were readily available, the production of fasteners requires an education and training level that is above the national manufacturing average. The hardships to workers—skilled and unskilled—has been ignored in decisions.

The Trade Act of 1974 gives the President 60 days to make a determination of whether or not the recommendation of the International Trade Commission will be followed. On February 14, the President rejected the ITC recommendations declaring:

1. Domestic producers' shipments and exports increased in 1976 and the first half of 1977.

Comment: This fact has not, however, cured the injury to the industry on the loss of jobs. Producers' shipments dropped 28 percent between 1974 and 1976. Imports were 64 percent of shipments in 1977. (See attached table 2.) The rise in 1977 for the full year was 1 percent. The job total for all of 1977 was below 1976, which was below the recession level of 1975.

2. Import relief would add to costs of United States manufacturers who use fasteners to produce cars, machinery, equipment and construction items.

Comment: The record shows that the cost of fasteners constitutes less than one-tenth of one percent of the cost of production in most industries. Therefore, the total inflationary impact would be relatively unimportant compared with the inflationary impact of becoming totally dependent on imported fasteners whose price will rise when the United States is unable to produce them. The ITC report shows that import prices rose higher than United States prices during a fastener shortage in 1974.

3. "The Department of Labor has stated that re-employment prospects for unemployed fastener workers are fair since many of these workers are located in areas with unemployment rates below the national average."

Comment: This is an almost unbelievable statement. It shows a callous disregard for the impact of unemployment on workers and a lack of understanding of Americans' needs for jobs and income. But even in cold economic terms, it is an unrealistic statement. The national average of unemployment is over 6 percent, a rate which is a sign of a labor surplus market in almost any economic study. The list of some fastener locations shows how the economic impact in employment can affect states as far apart as Alabama and California. But the greatest concentration is in the hard hit North Central and Northeastern states. (See Table 3.)

4. Provision of import relief would subject United States jobs to the possibility of retaliation.

Comment: The international agreements of the General Agreement on Tariffs and Trade allow the United States to protect its industry when it is injured. Compensation is not required; it may be sought. An industry which is protected for national security reasons is exempt from any compensation.

5. Import relief would adversely affect United States international economic interests—especially in view of the trade negotiations.

Comment: The Congress passed the Trade Act of 1974 to authorize negotiations. The import relief section was in keeping with prospects for negotiations.

6. The appreciation of the yen will relieve competitive pressures from Japanese fastener exports to the United States.

Comment: The price of fasteners will be higher if the Japanese have realistic pricing and base their sales on costs. Thus this is an argument for inflation from abroad—an argument that makes no sense in terms of the United States' need for industry at home.

Most of all, the President's statement is notable because it encourages the expansion of United States subsidiaries abroad at the expense of the United States economy: The President stated: "Furthermore, domestic producers or their wholly owned subsidiaries imported or purchased 20-25 percent of total 1976 shipments of imported fasteners." Thus the failure to act to protect the industry at home will encourage the increase in imports now underway. Since the ITC found that the largest producers have foreign affiliates—the failure to act can encourage foreign expansion of United States subsidiaries abroad, with encouragement to ship to the United States market.

The Office of Federal Preparedness of the General Services Administration has stated that present capacity to produce fasteners is not great enough to meet the demands of a national emergency.

This Committee should be aware that, despite the injury findings, some fasteners are now on the list of items receiving zero tariffs or preferences from less developed countries. Therefore, an inrush of fasteners from protected economies, such as India and Taiwan, may further harm the United States industry and cost more jobs unless the Congress acts. Under Section 503(e) (2) of the Trade Act of 1974, an action under Section 203 makes an item ineligible for Tariff preferences.

Losing the fastener industry will be even more serious to the overall economy than the loss of large parts of the shoe industry and almost the entire black and white TV industry. These industries were decimated by the same type of delay and unrealistic trade decisions in the past ten years. To make such decisions about the fasteners of an industrial economy is a shortsighted and collous view that places vague international claims above the well-being of the people and industries who make up the United States.

Immediate action by the Congress to recommend disapproval of the President's determination not to give import relief to the fastener industry is necessary. Disapproval will put the ITC recommendations for a tariff rise into effect.

The AFI-CIO urges this subcommittee to recommend immediate action by the Congress to over-ride the President's decision and to support the resolution that will put the International Trade Commission's recommendations into effect. This is a necessary first to step to assure fair trade for Americans—at home and abroad.

TABLE 1.—AVERAGE NUMBER OF PERSONS EMPLOYED IN U.S. ESTABLISHMENTS IN WHICH BOLTS, NUTS, AND LARGE SCREWS WERE PRODUCED, TOTAL AND PRODUCTION AND RELATED WORKERS ENGAGED IN THE PRODUCTION OF ALL PRODUCTS AND OF BOLTS, NUTS, AND LARGE SCREWS, 1969-77

Period	Total	Production and related workers engaged in the production of—	
		Bolts, and large screws	Nuts
1969.....	20,232	(1)	(1)
1970.....	18,746	(1)	(1)
1971.....	17,210	(1)	(1)
1972.....	16,858	(1)	(1)
1973.....	17,836	(1)	(1)
1974.....	17,399	13,008	4,382
1975.....	13,373	10,016	3,357
1976.....	13,077	9,690	3,387
1977.....	12,744	8,187	3,557

<sup>1</sup> Not available.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.



**TABLE 2.—BOLTS, NUTS, AND LARGE SCREWS OF IRON OR STEEL: U.S. PRODUCERS' SHIPMENTS, IMPORTS FOR CONSUMPTION, EXPORTS OF DOMESTIC MERCHANDISE, AND APPARENT CONSUMPTION, BY TYPES, 1969-77**

[Quantity in thousands of pounds; value in thousands of dollars]

Item and period	Quantity				Ratio (percent) of imports to—	
	Producer's shipments	Imports <sup>1</sup>	Exports <sup>2</sup>	Apparent consumption	Shipments	Apparent consumption
<b>Bolts and large screws:</b>						
1969	1,141,800	206,363	81,914	1,266,249	18	16
1970	1,069,401	224,629	77,457	1,216,573	21	19
1971	978,951	215,833	71,667	1,123,117	22	21
1972	1,112,776	279,382	84,355	1,307,803	25	23
1973	1,190,653	329,038	102,665	1,417,026	28	25
1974	1,217,178	474,829	127,350	1,564,702	39	30
1975	828,898	329,758	129,006	1,029,659	40	32
1976	881,236	474,084	150,078	1,205,242	54	39
1977	898,129	491,140	166,203	1,223,066	55	40
<b>Nuts:</b>						
1969	340,307	165,661	13,134	492,834	49	34
1970	298,284	176,062	11,691	462,655	59	38
1971	263,539	163,415	11,560	415,390	62	39
1972	303,089	194,812	17,690	480,211	64	41
1973	309,074	215,525	21,730	502,869	70	43
1974	312,173	301,613	31,802	581,984	97	52
1975	194,172	205,038	43,480	355,730	106	58
1976	219,145	230,390	47,191	402,344	105	57
1977	214,784	225,776	52,062	388,498	105	58
<b>Total:</b>						
1969	1,482,107	372,024	95,048	1,759,033	25	21
1970	1,367,685	400,691	89,148	1,679,228	29	24
1971	1,242,486	379,248	83,227	1,538,507	31	25
1972	1,415,868	474,194	102,045	1,788,014	34	27
1973	1,498,227	544,563	124,395	1,919,895	36	28
1974	1,529,351	776,442	159,107	2,146,686	51	36
1975	1,023,070	534,796	172,486	1,385,380	52	39
1976	1,100,381	704,474	197,269	1,607,586	64	44
1977	1,112,913	716,916	218,265	1,611,564	64	44

<sup>1</sup> Quantity does not include bolts, nuts, and screws imported free of duty from Canada under the Automotive Products Trade Act (APTA); quantity of such articles is not reported in the official statistics of the U.S. Department of Commerce. Value of imports includes bolts, nuts, and screws imported free of duty from Canada (APTA).

<sup>2</sup> In official import statistics of the U.S. Department of Commerce, the TSUS items containing screws were reported in gross pieces during 1969-74; for these years, the staff converted the gross pieces into pounds.

<sup>3</sup> Includes bolts, threaded rods and studs, and nuts if nuts and bolts are in the same shipment. It is estimated by the staff of the U.S. International Trade Commission that bolts of iron or steel accounted for approximately 90 percent of total exports.

<sup>4</sup> Includes screws, rivets, washers, and similar articles. It is estimated by the staff of the U.S. International Trade Commission that large screws of iron or steel accounted for approximately 60 percent of total exports by quantity and about 45 percent, by value, of total exports.

Source: U.S. producers' shipments compiled from data submitted in response to questionnaires of the U.S. International Trade Commission; imports and exports compiled from official statistics of the U.S. Department of Commerce.

**TABLE 3.—LOCATIONS OF PLANTS PRODUCING BOLTS, NUTS AND SCREWS OF IRON OR STEEL**

Firm name	State	City	County
Lamson & Sessions Co.	Alabama	Birmingham	Jefferson
Vulcan Rivet & Bolt Co.	do	do	Do.
Amerace Corp.	Arkansas	Pocahontas	Randolph
Mono. Ind. Inc. Metal Prod Group	California	Santa Monica	Los Angeles
Bethlehem Steel	do	Vernon	Do.
Russell, Burdshall & Ward	do	Los Angeles	Do.
Standard Pressed Steel	do	Santa Ana	Orange
Central Screw Co.	do	Sonoma	Sonoma
Clark Bros. Bolt Co.	Connecticut	Milldale	Hartford
Allen Mfg. Co.	do	Hartford	Do.
Holo-Krome Co.	do	Elmwood	Do.
Socket Screw Corp. of America	do	Norwalk	Fairfield
Lamson & Sessions	Illinois	Chicago	Cook
Illinois Tool Works	do	do	Do.
Phoell Mfg. Co.	do	do	Do.
International Harvester Co.	do	do	Do.
Victor Products Co.	do	do	Do.
Safety Socket Screw Co.	do	do	Do.
ITT Harper	do	Morton Grove	Do.
Stanscrew/Capwell	do	Bellwood	Do.
Russell, Burdshall & Ward	do	Des Plaines	Do.

Firm name	State	City	County
Illinois Tool Works	do.	Elgin	Cook & Kane,
Illinois Tool Works	do.	El Grove Village	Cook,
Rockford Products	do.	Rockford	Winnebago,
National Lock Fasteners	do.	Rockford	Do.
MacLean-Fogg Lock Nut Co.	do.	Mundelein	Lake,
Russell, Burdsall & Ward	do.	Rock Falls	White Side,
John Deere Plow & Planter Works	do.	Moline	Rock Island,
Central Screw	do.	Broadview	Du Page,
Ford Motor Co.	do.	Indianapolis	Marion,
Gripco Fastener Division-Mite Corp.	Indiana	Montpelier	Blackford,
Hunchler Products Inc.	do.	Huntington	Huntington,
Gripco Fastener Division-Mite Corp.	do.	South Whitley	Whitley,
Bethlehem Steel	do.	East Chicago	Lake,
Modulus Co.	do.	Gary	Do.
Standard Locknut & Lockwasher Inc.	do.	Carmel	Hamilton,
Illinois Tool Work	Kentucky	Russellville	Logan,
Reed & Prince Mfg. Co.	Maine	Worcester	Worcester,
Stillwater Assoc.	do.	East Freetown	Bristol,
Continental Screw	do.	New Bedford	Do.
Geo. W. Moore Inc.	do.	Waltham	Hancock,
Decker Mfg. Corp.	Michigan	Abion	Cathoua,
Federal Screw Works	do.	Detroit	Wayne,
Zimmer Mfg. Industry	do.	Detroit	Do.
Ford Motor Co.	do.	Dearborn	Do.
Towne Robinson Fastener Co.	do.	Dearborn	Do.
Federal Screw Works	do.	Romulus	Do.
Everlock Detroit Inc.	do.	Troy	Macomb,
International Screw Co.	do.	Mount Clemens	Do.
MSP Industries	do.	Center Line	Do.
King Screw Works	do.	Madison Heights	Do.
Molloy Mfg. Co.	do.	Ft. Erie	Do.
G. B. DuPont Co. Inc.	do.	Troy	Do.
Ring Screw Works	do.	Warren	Do.
Zelda Fastener Co. Inc.	do.	Walled Lake	Oakland,
Federal Screw Works	do.	Troy	Do.
G. B. DuPont Co. Inc.	do.	Lapeer	Lapeer,
Ring Screw Works	do.	Fenton	Genesee,
Lewis Bolt & Nuts Co.	Minnesota	Minneapolis	Hennepin,
Keystone Consolidated	Mississippi	Greenville	Washington,
Jacobson Mfg. Co.	New Jersey	Kenilworth	Union,
Amerace Corp.	do.	Union	Do.
Trans National Fabricators	do.	Linden	Do.
Armco Steel	Missouri	Kansas City	Jackson & Clay,
St. Louis Screw & Bolt Co.	do.	St. Louis	St. Louis,
Teale Machine Co. Inc.	New York	Rochester	Monroe,
Standard Pressed Steel	Ohio	Cleveland	Cuyahoga,
Federal Steel & Wire	do.	do.	Do.
Atlas Bolt & Screw	do.	do.	Do.
Lamson & Sessions*	do.	do.	Do.
E. W. Ferry Screw Products Inc.	do.	do.	Do.
The Ferry Cop & Screw Co.	do.	do.	Do.
Auto Bolt & Nut Co.	do.	do.	Do.
United Screw & Bolt Corp.	do.	do.	Do.
Cuyahoga Bolt & Screw Co.	do.	do.	Do.
Modulus Co.	do.	Chargin Falls	Do.
KLI Inc. (Kerr Lakeside Inc.)	do.	Euclid	Do.
Lake Erie Screw Corp.	do.	Lakewood	Do.
Lamson & Sessions	do.	Bedford Heights	Do.
Lamson & Sessions	do.	Kent	Portage,
Joseph Dyson & Sons Inc.	do.	East Lake	Lake,
Russell, Burdsall & Ward	do.	Mentor	Do.
Jos. Dyson & Sons	do.	Painesville	Do.
Int. Nut Corp.	do.	Sandusky	Erie,
Arko Steel Corp.	do.	Middletown	Butler,
Russell, Burdsall & Ward	Oregon	Tigard	Washington,
Russell, Burdsall & Ward	Pennsylvania	Coraopolis	Allegheny,
Modulus Co.	do.	Mt. Pleasant	Westmoreland,
Bethlehem Steel	do.	Lebanon	Lebanon,
WM. H. Otte Miller Co.	do.	York	York,
Veeder Industries Inc.	do.	Lancaster	Lancaster,
Erie Bolt Corp.	do.	Erie	Erie,
Standard Pressed Steel	do.	Jenkintown	Montgomery,
Bethlehem Steel	do.	Bethlehem	Lahigh,
Pawtucket Screw Co.	Rhode Island	Pawtucket	Providence,
Pawtucket Fasteners Inc.	do.	Pawtucket	Do.
Standard Nut & Bolt Co.	do.	Cumberland	Do.
Greer-Smyrna Inc.	Tennessee	Smyrna	Rutherford,
Mid So. Bolt & Screw Co.	do.	Nashville	Davidson,
Northwest Bolt & Nut Co.	Washington	Seattle	King,
Bethlehem Steel	do.	do.	Do.

\*Two plants.

**SUMMARY OF STATEMENT BY BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS ON SOCIAL SECURITY FINANCING**

We appreciate the opportunity to present our views on the financing of the Social Security program. There is no need to remind you, Mr. Chairman, of the tremendous importance of Social Security to Americans of all ages. You have participated in the development of the Social Security System for many years as a key member of the Senate Finance Committee and more recently as Chairman of the Subcommittee on Social Security. And we know that you have always been receptive to proposals to improve Social Security, to broaden it, to make it serve the needs of the American people more adequately—provided these proposals did not endanger the basic soundness of the system as a whole.

Only a few months ago, on December 20, 1977, President Carter signed into law H.R. 9346, the Social Security Amendments of 1977. The AFL-CIO supported President Carter's Social Security proposals and, consequently, we were not satisfied with a number of major provisions of the new law that were contrary to them. Had the President's proposals been adopted, payroll tax increases for most workers not already scheduled in the law would not have been necessary. However, H.R. 9346 did put the Social Security cash benefit programs on a sound financial basis now and well into the next century. We are glad that Congress recognized the vital importance of acting promptly to resolve the program's serious financial problems in order to guarantee benefits to million of retirees as well as active workers who depend on the program for their protection.

Nevertheless, workers hard pressed to meet current living costs are rightly concerned about increases in the payroll tax. Understandably, many of our members have expressed their concern to us about the burden of these taxes. In a country claiming commitment to the principle of progressive taxation based on ability to pay, Social Security financing remains regressive—low and middle income workers contribute a higher proportion of their income than do the wealthy—although with the recent changes in a few years it will be less regressive than at any time except in the early years of the program.

These concerns prompted the AFL-CIO Executive Council to issue a statement on Social Security financing at its recent meeting in February. This statement as well as other relevant material are appended to this statement. I respectfully request they be included in the record of the hearing.

Social Security financing, like any tax legislation, involves the highly charged issue of how to distribute the tax burden. The fairest and most feasible funding source for supplementing the payroll tax is general revenues with these revenues based as much as possible on progressive taxation. For many years the AFL-CIO has urged that the payroll tax be supplemented by general revenues. We oppose any funding source such as sales or value added taxes which would place the financing burden on those least able to bear it.

Increasingly, bills providing some general revenue financing have been introduced in Congress. This year, S. 2503 was introduced by the Chairman of this Subcommittee along with 23 cosponsors providing general revenue financing of the Disability Insurance and Health Insurance programs. S. 2501 has been introduced by Senator Hathaway to reduce Social Security taxes by providing one-third general revenue financing towards the cost of the Old Age, Survivors, Disability and Health Insurance Program. Congressmen Mikva (H.R. 10754) and Burke (H.R. 10668) have introduced companion bills to S. 2503 and S. 2501 respectively. Other bills have been introduced.

Many European countries use general revenues to supplement employer-employee taxes in financing their social insurance systems. The Committee on Economic Security, which developed the original Social Security law, considered that such a general revenue contribution eventually would be needed. Indeed, the original Social Security legislation submitted to Congress in 1935 contemplated an eventual government contribution.

The principle of a general revenue contribution already has been accepted since some general revenue funds are being used to pay for benefits based on wage credits for military service, hospital insurance benefits for non-insured people, special age 72 benefits, and half of the cost of the Supplemental Medical Insurance Program (Part B) of Medicare. Using federal general revenue for Social Security is not a radical concept. Rather it is an old idea that has not been fully and properly implemented.

We urge Congress to adopt the principle of S. 2501, a bill introduced by Senator Hathaway, which would finance one-third of the total cost of Social Security by a governmental contribution. We urge as a first step toward that objective a rollback in the 1979 payroll tax to 5.85 percent and replacement of all scheduled future tax rate increases with general revenues. This approach would insure roughly one-third general revenue financing by 1980.

We oppose a rollback in the future wage base increases mandated by the new law. These wage increases would affect only the highest paid workers, initially less than 15 percent of the work force and ultimately only 6 percent. The increases in the wage base are important not only as a means of financing the program but also for reducing the regressive aspects of the tax. These higher paid workers will simply be paying the same percentage of their salaries in payroll taxes that low and middle income workers have been paying all of their working lives.

We oppose S. 2503, an alternative to S. 2501, which also uses general revenue and reduces the payroll tax. The AFL-CIO strongly supports the introduction of general revenue financing into all the Social Security programs (OASDHI). However, we believe that financing the Disability and Medicare programs totally from general revenues as does S. 2503 without any worker contribution would undermine the social insurance principle of benefits as a matter of right. If adopted, it could in time lead to income and means tests. A major factor in Social Security's popularity is the absence of a welfare stigma. The public looks upon benefits as an earned right because workers have made contributions during their working lives. Therefore, we oppose general revenue financing of any of the Social Security programs that does not maintain the contributory principle although we strongly favor general revenue supplementing payroll taxes.

S. 2503 would also disproportionately help high income wage earners at the expense of low and middle income workers. Its substitution for either the Administration or AFL-CIO tax proposals would mean that low and middle income workers would receive less in tax cuts. For example, based on the combined income and Social Security tax payments now scheduled, a worker with a spouse and two children earning \$10,000 a year in 1979 would receive a \$284 annual tax cut under the Administration's tax proposal and \$312 under the AFL-CIO proposal. This worker would receive only \$180 under S. 2503.

The AFL-CIO urges rolling back the payroll tax in 1979 to 5.85 percent and maintaining the rate at the level on into the future with all scheduled future tax rate increases replaced by general revenue. This would reduce the current rate of 8.05 percent and prevent the increase to 6.13 percent now scheduled for 1979. The cost to reimburse the Social Security Trust Funds in 1979 would be approximately \$5.4 billion. Though payroll taxes would decrease by \$5.4 billion, the additional corporate income resulting from the payroll tax reduction would be taxable and no longer deductible as a business expense. Thus, the net loss to the Treasury would be less.

Rollback of the payroll tax is preferable to the Administration's proposal to lower the corporate tax rate and to make the investment credit permanent. It would have a number of beneficial effects which would not result from the Administration's proposals. Among these gains are the following:

1. It would provide additional immediate stimulus by increasing consumer buying power. Measures designed to affect investment spending operate with much longer lags and less effectively than measures that stimulate consumer spending.

2. It would benefit all employers with a reduced payroll tax and not just those who take advantage of the investment credit. In short, it would stimulate employment by benefiting employers who employ labor rather than those who substitute new equipment for labor.

3. It would immediately reduce production costs and thus be more likely to result in lowered prices. The immediate effect of a cut in the corporate income tax is to increase after tax profits with little likelihood of price reductions.

We hope our suggestions on the subject of Social Security financing will be helpful to the Subcommittee in reaching speedy conclusions as to needed action. In particular, we urge that the general revenue funding we have recommended be introduced in time to avoid the future payroll taxes now scheduled in the law. We are certain that American workers can have every confidence that this Subcommittee and the Congress will act promptly to ease the burden of the payroll tax and, at the same time, will insure that the program continues on a sound financial basis.

**STATEMENT BY BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY,  
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS  
ON SOCIAL SECURITY FINANCING**

We appreciate the opportunity to present our views on the financing of the Social Security Program. There is no need to remind you, Mr. Chairman, of the tremendous importance of Social Security to Americans of all ages. You have participated in the development of the Social Security System for many years as a key member of the Senate Finance Committee and more recently as Chairman of the Subcommittee on Social Security. And we know that you have always been receptive to proposals to improve Social Security, to broaden it, to make it serve the needs of the American people more adequately—provided these proposals did not endanger the basic soundness of the system as a whole.

Only a few months ago, on December 20, 1977, President Carter signed into law H.R. 9346, the Social Security Amendments of 1977. This law makes a number of major and far-reaching changes in the financing of the program as well as a number of other significant changes in the provisions of the law.

The AFL-CIO supported President Carter's Social Security proposals and, consequently, we were not satisfied with a number of major provisions of the new law that were contrary to them. Had the President's proposals been adopted, payroll tax increases for most workers not already scheduled in the law would not have been necessary. However, H.R. 9346 did put the Social Security cash benefit programs on a sound financial basis now and well into the next century. We are glad that the Congress recognized the vital importance of acting promptly to resolve the program's serious financial problems in order to guarantee benefits to millions of retirees as well as active workers who depend on the program for their protection.

Nevertheless, workers hard pressed to meet current living costs are rightly concerned about increases in the payroll tax. In a country claiming commitment to the principle of progressive taxation based on ability to pay, Social Security financing remains regressive—low and middle income workers contribute a higher proportion of their income than do the wealthy—although with the recent changes in a few years it will be less regressive than at any time except the early years of the program.

The AFL-CIO has deep concern about the burden of Social Security taxes on workers. Understandably, many of our members have expressed their concern to us about the burden of these taxes. Such concerns prompted the AFL-CIO Executive Council to issue a statement on Social Security financing at its recent meeting in February. This statement as well as other relevant material are appended to this statement. I respectfully request they be included in the record of the hearings.

Social Security financing, like any tax legislation, involves the highly charged issue of how to distribute the tax burden. The fairest and most feasible funding source for supplementing the payroll tax is general revenues with these revenues based as much as possible on progressive taxation. For many years the AFL-CIO has urged that the payroll tax be supplemented by general revenues. We oppose any funding sources such as sales or value added taxes which would place the financing burden on those least able to bear it.

During last year's debate on Social Security financing, key members of Congress indicated that alternatives to the payroll tax must be found and many mentioned general revenue financing. Since it was also an important element in the President's proposal for Social Security financing, the subject of general revenue financing was discussed in far greater depth by the Congress than in the past, leading to very serious consideration of the concept, better understanding of its implications and why it is needed. Mounting public concern over increased payroll taxes arising from the recent legislation has also prompted Congressional interest in the issue of general revenue financing.

Increasingly, bills providing for some general revenue financing have been introduced in Congress. This year, S. 2503 was introduced by the Chairman of this Subcommittee along with 23 cosponsors providing general revenue financing of the Disability Insurance and Health Insurance programs. S. 2501 has been introduced by Senator Hathaway to reduce Social Security taxes by providing one-third general revenue financing towards the cost of the Old Age, Survivors, Disability and Health Insurance Program. Congressmen Mikva (H.R. 10754) and Burke (H.R. 10668) have introduced companion bills to S. 2503 and S. 2501 respectively. Other bills also have been introduced.

There has been support for a government contribution from general revenues from the inception of the program. Organized labor supported the the payroll tax at the time the Social Security program began despite its burden upon low income workers. However, organized labor and many other supporters of this legislation viewed exclusive reliance on the payroll tax as a transitional stage.

Mr. Chairman, if you will examine the record of the past you will find that in the early years of the program the Social Security Board, Advisory Councils, and Congressional spokesmen, as well as organized labor asserted the need for a general revenue contribution at some appropriate stage of the development of the system. Organized labor believed, as did many others, that exclusive reliance on the payroll tax was necessary during the initial phase of the program in exchange for the benefits of the new protection. But, at the same time, we felt that ultimately action would have to be taken to limit the burden upon low and middle income groups.

In fact, the original Social Security legislation submitted to Congress in 1935 recommended a government contribution to cover past service credits and even mentioned 1965 as the most likely year when such contributions would be required. Provisions for a government contribution were actually included in the Social Security Act from 1944 to 1950 and though removed in the amendments of 1950, its removal was against the recommendation of the Advisory Council on Social Security.

In addition, government contributions are already being used to meet a minor but nevertheless a significant portion of program costs—wage credits for military service, hospital insurance for the non-insured, matching funds for the Part B premium and for the age 72 special benefits. In short, Mr. Chairman, general revenue financing is not a new proposal but an old one that now needs to be more fully implemented.

We urge Congress to adopt the principle of S. 2501, a bill introduced by Senator Hathaway, which would finance one-third of the total cost of Social Security by a governmental contribution. We urge as a first step toward that objective a rollback in the 1979 payroll tax to 5.85 percent and replacement of all scheduled future tax rate increases with general revenues. This approach would insure roughly one-third general revenue financing by 1990.

We oppose a rollback in the future wage base increases mandated by the new law. These wage base increases would affect only the highest paid workers, initially less than 15 percent of the work force and ultimately only 6 percent. The increases in the wage base are important not only as a means of financing the program but also for reducing the regressive aspects of the tax. These higher paid workers will simply be paying the same percentage of their salaries in payroll taxes that low and middle income workers have been paying all of their working lives.

These wage base increases will also go a long way toward restoring the original proportion of covered wages upon which workers' contributions were made when Social Security was started. When enacted, the Social Security program covered the full earnings of 97 percent of covered workers. The new law increases this percentage from 85 to 94 percent.

The wage base increases also raise the benefits of those affected since the additional amounts will increase the average wage on which benefits are based. This results in keeping benefits better related to earnings and reflects the fact that Social Security is important to workers with above average earnings as well as those with average or low incomes.

We oppose S. 2503, an alternative to S. 2501, which also uses general revenue and reduces the payroll tax. The AFL-CIO strongly supports the introduction of general revenue financing into all the Social Security programs (OASDHI). However, we believe that financing the Disability and Medicare programs totally from general revenues as does S. 2503 without any worker contribution would undermine the social insurance principle of benefits as a matter of right. If adopted, it could in time lead to income and means tests. A major factor in Social Security's popularity is the absence of a welfare stigma. The public looks upon benefits as an earned right because workers have made contributions during their working lives. Therefore, we oppose any general revenue financing of any of the Social Security programs that does not maintain the contributory principle although we strongly favor general revenue supplementing payroll taxes.

S. 2503 would also disproportionately help high income wage earners at the expense of low and middle income workers. Its substitution for either the Ad-

ministration or AFL-CIO tax proposals would mean that low and middle income workers would receive less in tax cuts. For example, based on the combined income and Social Security tax payments now scheduled, a worker with a spouse and two children earning \$10,000 a year in 1979 would receive a \$284 annual tax cut under the Administration's tax proposals and \$312 under the AFL-CIO proposal. This worker would receive only \$180 under S. 2503.

On the other hand, high wage earners would do very well under S. 2503. For example a two wage earner couple with no children, each earning \$20,000, would gain \$720 annually. Reductions would be even greater in future years for those at incomes above \$20,000.

The AFL-CIO urges rolling back the payroll tax in 1979 to 5.85% and maintaining the rate at that level on into the future with all scheduled future tax rate increases replaced by general revenue. This would reduce the current rate of 6.05 percent and prevent the increase to 6.13 percent now scheduled for 1979. The cost to reimburse the Social Security trust funds in 1979 would be approximately \$5.4 billion. Though payroll taxes would decrease \$5.4 billion, the additional corporate income resulting from the payroll tax reduction would be taxable and no longer deductible as a business expense. Thus, the net loss to the Treasury would be less.

Rollback of the payroll tax is preferable to the Administration's proposals to lower the corporate tax rate and to make the investment credit permanent. It would have a number of beneficial effects which would not result from the Administration's proposals. Among these gains are the following:

1. It would provide additional immediate stimulus by increasing consumer buying power. Measures designed to affect investment spending operate with much longer lags and less effectively than measures that stimulate consumer spending.

2. It would benefit all employers with a reduced payroll tax and not just those who take advantage of the investment credit. In short, it would stimulate employment by benefiting employers who employ labor rather than those who substitute new equipment for labor.

3. It would immediately reduce production costs and thus be more likely to result in lowered prices. The immediate effect of a cut in the corporate income tax is to increase after tax profits with little likelihood of price reductions.

We hope our suggestions on the subject of Social Security financing will be helpful to the subcommittee in reaching speedy conclusions as to needed action. In particular, we urge that the general revenue funding we have recommended be introduced in time to avoid the future payroll taxes now scheduled in the law. We are certain that American workers can have every confidence that this Subcommittee and the Congress will act promptly to ease the burden of the payroll tax and, at the same time, will insure that the program continues on a sound financial basis.

The Social Security program has come a long way since it was first enacted in 1935 toward helping the aged, disabled and survivors to achieve a better life. But there are still many areas where the law needs to be improved. Therefore, in addition to supporting sound and equitable financing, the AFL-CIO pledges to continue in the future, as we have in the past, to strive to improve the Social Security program in order to better protect American workers—active and retired. We hope that we can look to this Subcommittee for sympathetic attention to these needs in future years.

#### STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL ON SOCIAL SECURITY FINANCING

The recent Social Security legislation made a number of major changes in the program's financing, including significant increases in the payroll tax and in the wage base. Some of these changes impact severely on those least able to pay. President Carter's original financing proposals, which were supported by the AFL-CIO, would have avoided new payroll tax increases for most workers.

Social Security is now on a sound actuarial basis into the next century. But Social Security financing remains regressive. Despite this nation's commitment to the principle of progressive taxation based on ability to pay, low and middle-income workers contribute a higher proportion of their income to Social Security than do the wealthy.

The AFL-CIO has repeatedly stated that the payroll tax should be supplemented by general revenues, since that revenue is based on a more progressive

tax system. Congress should use general revenue funding to reduce the existing tax burden and to avoid future tax rate increases now scheduled in the law.

Representative James A. Burke of Massachusetts has introduced a bill, H.R. 10668, which would achieve a long-sought AFL-CIO goal of having one-third of the total cost of Social Security financed by a governmental contribution. We urge Congress to adopt the principle of H.R. 10668, through a series of steps starting with a rollback in the 1979 payroll tax to 5.85 percent, with all scheduled future tax rate increases replaced by general revenues. This would achieve one-third general revenue financing within an acceptable period of time.

We emphatically reject alternative sources of financing, such as sales or value-added taxes, which would continue to place the financing burden on those least able to bear it. At the same time, additional funds to finance any improvements in Social Security could come from requiring employers to contribute to the program on the basis of total payrolls. The wage base should be used only to determine the employee's contribution and average wage for figuring benefits.

The rollback in the Social Security tax rate would provide an effective stimulus to consumer buying power and benefit both employees and employers through reduced Social Security tax payments.

*Estimated Annual General Revenue Contributions Required to Rollback and Maintain Payroll Tax at 5.85 Each on Employee and Employer—1979-1981*

	In billions <sup>1</sup>
1979	5.4
1980	6.1
1981	18.4
1982	22.3
1983	24.0
1984	25.7
1985	38.0
1986	44.6
1987	47.7

<sup>1</sup> The net loss to the Treasury would be less since corporate income tax payments would rise because employers would have less payroll taxes to deduct as a business cost from their taxable income.

COMPARISON OF SOCIAL SECURITY TAXES UNDER PRESENT LAW WITH THOSE UNDER PROPOSAL TO HOLD PAY-ROLL TAX AT 5.85 PERCENT

	1979	1981	1985	1986	1990 and after	
Tax rate (percent).....	5.85	6.13	6.65	7.05	7.15	7.65
Maximum wages taxed <sup>1</sup> .....	\$22,900	\$27,700	\$38,100	\$40,200	\$47,700	\$47,700
Maximum tax.....	1,403	1,975	2,586	2,874	3,649	3,649
Tax for \$10,000 earner.....	555	613	655	705	715	765
Tax for \$15,000 earner.....	878	920	998	1,058	1,073	1,148
Tax for \$20,000 earner (1979).....	1,170	1,228	1,330	1,410	1,430	1,530
Tax for \$25,000 earner (1981).....	1,463	1,403	1,662	1,762	1,787	1,913
Tax for \$30,000 earner (1982).....	1,755	1,403	1,975	2,115	2,145	2,295

<sup>1</sup> Maximum taxable wages are estimated based on those scheduled in the law and on estimated adjustments based on increases in average covered wages.

PHILADELPHIA, PA., March 31, 1978.

Re reform of social security system.

Mr. MICHAEL STERN,  
Staff Director, Committee on Finance, Dirksen Senate Office Building,  
Washington, D.O.

**GENTLEMEN:** This statement is made by Ronald A. Anderson, on behalf of the Social Security Citizens' Foundation. The Foundation is a §501(c)(3) public foundation that is seeking to bring together those who have the experience, the vision, and the courage, to devise a new and safe system to provide non-discriminatory security for all people.

I. Social Security must be made safe, sufficient, and non-discriminatory.

That it is not safe is evident from your present concern with the problem and from the fact that after paying benefits for only nine years from 1940 to 1949, it was necessary to continually "refinance" the system by raising the tax rate and the tax base. Social Security must be made sufficient to support the average



worker on his old age. This is not the 19th century America when a respectable person could be expected to provide for his own old-age needs. That is now impossible. What can be saved in spite of the high cost of living and high taxes is eroded by inflation.

Discrimination must be eliminated. There should be no distinction between men and women nor any discrimination against persons working after 65. The HEW Task Force on the Treatment of Women under Social Security recognizes that there is a marked discrimination against women. See 51 Federal Register 10734-6. The reduction of benefits received by a working senior citizen is economically unsound and penalizes the senior citizen for exercising what would otherwise be regarded as an inalienable right; the right to work.

II. What went wrong with the Social Security system? The system was based on experience with private pension plans and not the needs of people. An insurance company has no concern about what the voter thinks. An insurance company benefits by inflation because it can pay off its fixed obligations with cheaper dollars.

The passing years have shown the futility of the actuarial approach of just raising the taxes a little more every few years. That system has failed because a growing percentage of a growing population is living longer and inflation makes the support more expensive.

III. Proposed changes: It is believed that there can be a self-sustaining Social Security system. In general terms, it would require (a) The separation of the welfare aspect (aid to the disabled) from the retirement. Retirement and welfare are two different financing operations. It is unsound from a business standpoint to make the retirement fund pay for the nation's disabled. It is also a violation of the mandate of Article I, § 8, clause 1, of the federal Constitution which requires that taxes be uniform. If as a nation we want to take care of our disabled, everyone, as a nation, should pay the cost. We do not tax the workers to build an aircraft carrier to defend the nation. Everyone pays.

(b) The retirement fund must be handled on a productive basis so that the tax money can grow larger before it is paid out.

As described in the brochure of the Social Security Citizens' Foundation, this calls for the following changes to the present system:

(1) Separate the retirement part of Social Security from the general welfare part (such as aid to disabled persons).

(2) As to retirement, keep Social Security taxes compulsory but give each person the option that his Social Security taxes and those paid by his employer shall be paid

(a) to government trustees to hold for him in an individual trust.

(b) to a bank selected by the person to be held in an individual tax-exempt retirement account.

(c) to an insurance company as premiums on a retirement income policy. On death, any balance will pass tax-free to a named beneficiary.

(3) End all discrimination and cover both employees and all self-employed persons and women working at home who want to participate by voluntary contributions. End all discrimination against persons who are married and persons who work after retirement age.

(4) The general welfare part of Social Security will be financed by the general tax revenues either directly or through General Revenue Sharing.

(5) Freeze the Social Security tax at 5 percent.

Attached to this letter are (A) pages from Who's Who in American Law to introduce me. I will be in the 1979 Dictionary of International Biography; (B) a brochure of the Social Security Citizens Foundation; (C) a copy of the Foundation's certification as a § 501(c)(3) tax exempt public foundation, and (D) a monograph written by me on some aspects of the Social Security problem.

I applaud your courage in tackling this enormous problem and in having the intelligence to ignore the assurances of the "experts" that everything is all right. For the sake of America in the 21st century, I wish you God's aid.

Sincerely,

RONALD A. ANDERSON.

#### WHO'S WHO IN AMERICAN LAW—STANDARDS OF ADMISSION

The fundamental means of identifying and selecting biographees for Who's Who in American Law is an individual's position within the American juridical structure. Therefore, the names included herein reflect the following areas of the legal profession:

Other biographees of Who's Who in American Law are chosen because of individual achievements within the legal profession.

**ANDERSON, RONALD ABERDEEN**, b. Chgo., Dec. 11, 1911; A.B., U. Pa., 1933, J.D. 1936. Gowan research fellow U. Pa. Law Sch., 1937; research asst. procedural rules com Pa. Supreme Ct., 1937-50; law clk. Estates Ct., Phila., 1940-65; practiced law, Phila., 1937-66; prof. law and govt. Drexel U., Phila., 1946—; tchr. law, econs. and polit. sci. Charles Morris Price Sch. Advt., Phila., 1946-53. Vol., Central br. YMCA. Phila., bd. dirs., 1947-52; founder, bd. dirs. Save Am. Manpower, Social Security Citizens Found.; bd. dirs. Chapel of Four Chaplains Mem. Am., Pa., Phila. bar assns., Am. Bus. Law Assn., Am. Hotel Law Inst. (dir.). Author: Anderson on the Uniform Commercial Code, 6 vols.; Couch Cyclopedia on Insurance, 2d edit., 24 vols.; Anderson's Pennsylvania Civil Practice, 17 vols.; Purdon's Pennsylvania Forms, 15 vols.; Social Forces and the Law; Government Regulation of Business; Hotelman's Basic Law; Insurer's Tort Law; Running a Professional Corporation; sr. author Principles of Business; Business Law Principles and Cases; cons. editor Pennsylvania Law Ency., 45 vols. Office: 252 S. Van Pelt St. Philadelphia PA 19103 Tel (215) 546-3235.

### S O S

That's the word from Social Security.  
What to do?

### S E S

Give America a new social security system based on S E S.

**S** is for **SECURE**—

Make retirement benefits secure.

**E** is for **EQUALITY**—

Protect everyone. Stop discrimination and forfeiture because of sex, marriage, or working after retirement age.

**S** is for **SUFFICIENT**—

Make social security payments sufficient.

No more promises that cannot be kept.

Let's work together for the real thing: Join the Social Security Citizens' Foundation.

### FACE THE TRUTH

In 1977 you will pay 34 times what you paid for Social Security tax in 1949 if you earn \$16,500 or more. The existing Social Security system can only bring depression or crushing taxation for the future. A new system is needed.

Social Security cannot keep going without raising taxes or reducing benefits or postponing retirement. Social Security cannot hold up much longer. Of course everyone will do their best to keep it going but this means: (1) more taxes, or (2) reducing the benefits, or (3) postponing retirement.

Do you want this?

One or more of these things must be done just to keep the present system going, even with all its discrimination and with its insufficient payments.

Don't you want a Social Security system which is safe, and which does not need higher taxes to keep it going?

Don't you want a Social Security system that does not discriminate against women and working senior citizens?

Above all, don't you want a Social Security system that will make payments that will be sufficient to support you?

Remember that you are going to live longer than those who went before.

What will become of you?

If you are concerned, join with me to find a better Social Security system. Join before it is too late.

We cannot sit idly by. Do not think that the system will not collapse because it is backed by the government. Governments can go broke. Look at New York. Look at some 37 states that are having financial difficulties. Can Uncle Sam bail out everyone and everything? And who will bail out Uncle Sam?

The Social Security trust fund is running dry. By the government's own figures, it will last three, maybe seven years. When it goes, all taxes will go up in a desperate effort to save the system and to protect those entitled to benefits. Higher taxes means less money for you. It means more inflation for everyone.

Remember that whenever unemployment rises; or work stops because of lack of Arab oil or natural gas, the amount paid as Social Security taxes drops and the reserve fund runs out that much faster.

#### WHAT CAN WE DO?

In union there is strength. While there is yet time, we must bring together the forward thinkers of our country to devise a new Social Security system that will work and that will not drive us all broke. America needs new experts who can devise a system for the future and learn from the mistakes of the past.

#### JOIN THE SOCIAL SECURITY CITIZENS' FOUNDATION

An individual life membership is \$1. A perpetual membership for a corporate employer is \$100. This is a non-profit corporation. It is an IRS approved section 501(c)(3) tax-exempt foundation.

The purpose of the Foundation is to promote the development of a sound, non-discriminatory Social Security plan through the cooperation of the foremost leaders of our great land. No executive salaries are paid by this foundation. Every dollar received for membership is used 100 percent in striving for the great goal of a safe and non-discriminatory Social Security system.

#### WHO IS RUNNING THE FOUNDATION?

Ronald A. Anderson, Esq., is the Director and President of the Foundation. He has written more law books than any other author, in this or in any country. He is well-known nationally to judges and lawyers as the author of *Anderson on the Uniform Commercial Code*, the Second Edition of *Oouch Cyclopedia of Insurance Law*, and many other texts. He is listed in *Who's Who in American Law* and is well-known to universities as the author of *Principles of Business Law, Government Regulation of Business, and Social Forces and the Law*. He is Professor of Law and Government at Drexel University, Philadelphia, and the chairman of the Research Committee of the Drexel College of Business and Administration.

Dr. Andrew G. Verzilli, forensic economist and statistician, is the Secretary and Treasurer of the Foundation. He is Associate Professor in Economics at Drexel University and has researched widely in government, industry and university sponsored projects.

Dr. Paul E. Dascher is the Vice-President. He is the head of the Accounting Department at Drexel and is well-recognized as a researcher and forward thinker in accounting problems.

These three volunteers are bringing together those who have the knowledge, the experience, and the courage to find a better social security system. These experts and leaders will be an Advisory Board that will guide the Foundation. The membership of the Board will soon be announced.

#### WHAT IS THE PEOPLE'S OPTION PROGRAM?

As a starter, the Foundation is considering the PEOPLES' OPTION PROGRAM (POP). Its key features are:

- (1) Separate the retirement part of Social Security from the general welfare part (such as aid to disabled persons).
- (2) As to retirement, keep Social Security taxes compulsory but give each person the option that his Social Security taxes and those paid by his employer shall be paid
  - (a) to government trustees to hold for him in an individual trust,
  - (b) to a bank selected by the person to be held in an individual tax-exempt retirement account, or
  - (c) to an insurance company as premiums on a retirement income policy.
- On death, any balance will pass tax-free to a named beneficiary.
- (3) End all discrimination and cover both employees and all self-employed persons and women working at home who want to participate by voluntary contributions. End all discrimination against persons who are married and persons who work after retirement age.
- (4) The general welfare part of Social Security will be financed by the general tax revenues either directly or through General Revenue Sharing.
- (5) Freeze the Social Security tax at percent.

POP will give the young person now starting to work a retirement fund of a quarter million to a half million dollars. No one else can spend this. It is there when he retires. What is left stays in his family.

#### DO YOU HAVE A BETTER PLAN?

POP cannot go broke and does not depend on rising taxes to keep going. Perhaps you do not agree with this. That is not important.

(1) You cannot deny that there is a Social Security problem.

(2) You cannot deny that in union there is strength. United we can make a better plan.

(3) If you don't like POP, don't just find fault; come out with a better plan. Join the Social Security Citizens' Foundation. Remember, America is waiting. How long can our country wait?

The problem becomes more difficult every year. As each year goes by the population has increased. Each year the cost of living has increased. Each year our nation's resources are less and less. The problem of Social Security may be impossible to solve in ten years. We must get to work at once.

#### DO NOT PANIC

Panic does no good. But do not hide like an ostrich and ignore the danger. Our country faces trouble. Not just trouble for the senior citizen, but trouble for everyone. Everyone will be taxed beyond the limit in the effort to have the present Social Security system. Trouble not just for the senior citizen, but for the young worker who will get nothing at 65 in spite of the years of Social Security taxes that were taken out of his pay and paid by his employer. Not just the senior citizen, but every business, every bank, every insurance company, and every holder of investments. YOU are threatened by

#### SS. DEFICIT PLUS U.S. DEFICIT EQUALS ?

If you doubt that there are two deficits, take the government's own figures. Social Security had a \$3 billion deficit in 1975. The official estimate is a deficit of 4.6 billion dollars in 1978. This is calculated to rise to a \$20 billion deficit in 1990. On the basis of today's dollar, the deficit in 2050 will be \$4 trillion, or 4 million million dollars, or 12 times the daily expenses of our entire national government for 1978.

#### DEFICITS SPEAK LOUDER THAN EXPERTS

Should we ignore the growing deficits? Are we protected because the experts say the present Social Security system is safe? Remember that the experts once said the earth was flat. The experts said the sun revolved around the earth. The experts said that everything was made of earth, fire, water, and air. The experts said it was impossible to create an atom bomb. The experts said it was impossible to journey to the moon. The experts said that our national population would never exceed 180 million. It is today over 216 million. The experts say the bumble bee cannot fly. Should we trust our futures to experts who cannot see tomorrow?

#### ADVANTAGES OF THE PEOPLE'S OPTION PROGRAM

No guessing games with the future. You get your money. You get more money. Your family gets more money when you die. You do not pay more for the general welfare than your neighbor. You help finance the industrial future of America. The Foundation program is not hurt by a depression, but is an anchor against depression. Future generations are not burdened with taxes. POP encourages self-reliance. POP ends discrimination in Social Security.

#### JOIN THE FOUNDATION NOW

\$1 for a life membership, \$100 for perpetual membership for a corporation.

#### PROTECT YOURSELF. SAVE OUR COUNTRY

Let's give 2076 something to celebrate!

DEPARTMENT OF THE TREASURY,  
INTERNAL REVENUE SERVICE,  
Washington, D.C., February 27, 1976.

SOCIAL SECURITY CITIZEN'S FOUNDATION,  
Philadelphia, Pa.

DEAR APPLICANT: Based on information supplied, and assuming your operations will be as stated in your application for recognition of exemption, we have determined you are exempt from Federal income tax under section 501(c)(8) of the Internal Revenue Code.

We have further determined you are not a private foundation within the meaning of section 509(a) of the Code, because you are an organization described in section 509(a)(2).

You are not liable for social security (FICA) taxes unless you file a waiver of exemption certificate as provided in the Federal Insurance Contributions Act. You are not liable for the taxes imposed under the Federal Unemployment Tax Act (FUTA).

Since you are not a private foundation, you are not subject to the excise taxes under Chapter 42 of the Code. However, you are not automatically exempt from other Federal excise taxes.

Donors may deduct contributions to you as provided in section 170 of the Code. Bequests, legacies, devises, transfers, or gifts to you or for your use are deductible for Federal estate and gift tax purposes if they meet the applicable provisions of section 2055, 2106, and 2522 of the Code.

If your purposes, character, or method of operation is changed, you must let your key District Director know so he can consider the effect of the change on your exempt status. Also, you must inform him of all changes in your name or address.

The block checked at the beginning of this letter shows whether you must file Form 990, Return of Organization Exempt From Income Tax. If the Yes box is checked, you are required to file Form 990 only if your gross receipts each year are normally more than \$5,000. If a return is required, it must be filed by the 15th day of the fifth month after the end of your annual accounting period. The law imposes a penalty of \$10 a day, up to a maximum of \$5,000, for failure to file the return on time.

You are not required to file Federal income tax returns unless you are subject to the tax on unrelated business income under section 511 of the Code. If you are subject to this tax, you must file an income tax return on Form 990-T. In this letter we are not determining whether any of your present or proposed activities are unrelated trade or business as defined in section 513 of the Code.

You need an employer identification number even if you have no employees. If an employer identification number was not entered on your application, a number will be assigned to you and you will be advised of it. Please use that number on all returns you file and in all correspondence with the Internal Revenue Service.

We are informing your key District Director of this action. Because this letter could help resolve any questions about your exempt status and your foundation status, please keep it in your permanent records.

Thank you for your cooperation.

Sincerely yours,

JEANNE S. GESSAY,

*Chief, Ruling Section 1, Exempt Organizations Technical Branch.*

SOCIAL SECURITY, YOU, AND TOMORROW

(By Ronald A. Anderson, Director of Social Security Citizens' Foundation)

What do you expect from Social Security? What will your grandchildren?

America took a giant step when the Social Security Act was adopted in 1935. When Roosevelt signed the law, he said that it was a cornerstone but that much building remained to be done. We have delayed too long in completing the building.

Social Security must be made safe. It must stop discriminating. It must begin providing sufficient support.

Is it safe? This year the President told you in his State of the Union message: "Simple arithmetic tells us all that the Social Security trust fund is headed for trouble." The former and present Secretaries of HEW and the special advisors to

the Secretary of the Treasury have variously said that the Social Security system will bankrupt the nation by the year 2000; that it cannot keep its promises; and that the deficit in the system by the middle of the next century will be \$4 trillion.

Why this grim outlook? The answer is easy. The workload now carried by the Social Security system is far greater than it was designed to carry. The senior citizen segment of the population is much larger. It has risen from 6 percent in 1935 to 10.5 percent. The National Institute of Aging forecasts that the senior citizen segment could become 16 percent of society. The total population is far greater than was anticipated. Now 216 million, it is 20 percent greater than was ever believed possible. The result is that while there were only about 7 million senior citizens in 1935, there are now over 22 million. Moreover, the person of 65 was expected to live 11.55 years in 1935 but now has an expectancy of 15 years. And in addition, Social Security has been broadened to include welfare payments, as for disabled persons. All of this against the background of a steadily rising cost of living. Small wonder that Social Security ran a deficit of \$3 billion last year, is running a deficit this year of \$4.6 billion, and will exhaust the reserve fund by 1980 or shortly thereafter. The present Social Security system discriminates against married working couples and senior citizens working after the age of retirement.

Social Security today is not sufficient. It is not sufficient for the millions who are totally dependent upon Social Security. This is seen particularly in the case of widows of retired workers. The reduced amount of Social Security received by the widow is not sufficient.

Does America really want a Social Security system that provides sufficient money to live through retirement years in a manner in harmony with our belief in the dignity of the human being? We will find the answer to this if we first answer the question: "Can the ordinary person save enough for support through the post-retirement years?" Sadly, the answer is now "no." I challenge anyone to take the medium range salary and save anything for the future after paying for food, clothing, fuel, transportation, taxes or rent.

And consider what happens to today's savings. Assume that our worker saves \$30 this week. What will the rising cost of living do to that saving? The most optimistic predict that the cost of living will drop to an increase of 3 percent a year. It is now 6.1 percent. If it drops to 3 percent, the \$30 saved today will have a purchasing power of \$15 in 24 years. In 39 years, it will be \$10.

It should be obvious that the ordinary employee cannot take care of his retirement years. It should also be obvious that for most Americans the pioneer era of self-reliance has gone forever. Very few can produce their own food, their own clothing, their own fuel, and their own shelter.

If the human being cannot take care of himself, is it not obvious that Social Security must be improved to do the job—What was good enough in 1935 will be no good in 2035. Social Security must be made safe, non-discriminatory, and sufficient; and in a way which will not bankrupt the nation.

In order to build for the future and carry on the work begun in 1776—protection of the human being—we must find a new system of Social Security. To date, the experts have produced nothing better than a proposal to raise Social Security taxes to increase the revenue by 12 percent to 20 percent. Within a few years, the cost of living will take up this increase and still more taxes will be required. Look at the history of Social Security. No payments were made until 1940. By 1948, the system was headed for trouble. Since 1950, Congress has repeatedly raised the maximum tax base and the tax rate. Instead of a 1 percent tax on a maximum of \$2000, it is now a tax of 5.85 percent with a maximum base of \$15,300. Next year the maximum base will be \$16,500 and the tax will be at least 6.15 percent—which makes the maximum tax on the worker about 34 times what it was 26 years ago.

This pattern of constantly raising the taxes does not solve the problem. Worse than that, it produces a cost of living increase that aggravates the problem.

In the belief that the forward thinkers and leaders can find a better way of meeting the individual and national needs if they could be brought together, the Social Security Citizens' Foundation has been formed. It is a non-profit corporation. It is an IRS tax-exempt § 501(c)(3) foundation. No executive salaries are paid.

The Foundation has proposed a plan in order to start the discussion. The first step of this plan, called the People's Option Program (POP), is to separate welfare payments made by Social Security from retirement benefits. Retirement taxes should be spent only for retirement.

The next step is to freeze the Social Security tax at 5 percent of salary.

The third step is to take the 5 percent paid by the employee and the 5 percent paid by the employer and give the employee the option of how that money should be held. The payment must be made, just as now, but the employee has the choice of how the fund is held. The option given to the employee is (1) let the government hold the money for him in an individual trust, (2) put the money in a tax-sheltered account in his bank, or (3) pay the money as premiums to his insurance company on a retirement policy.

By treating every person's account separately, there is no chance of it being spent for someone else. By providing tax sheltering, the amount can grow with inflation so that today's worker will probably receive about one-quarter of a million dollars on retiring. Any money remaining in the account upon the death of the senior citizen will pass to a named beneficiary free of any tax.

Under POP, each person has his own retirement fund which is not affected by whether there is unemployment or a decline in the birth rate. The buying power of the senior citizens coming from their individual accounts will promote full employment and prosperity for all. And best of all, each senior citizen is supported by his own retirement account. The rest of the nation is not taxed to provide for him. This is modern self-reliance.

There are many details to be worked out. But we must get busy and do it. The basic plan of POP is sound. It has been used successfully for a number of years by self-employed persons having individual Keogh Plan retirement accounts and by employees making voluntary contributions to qualified pension trusts of their employers.

Yet to be worked out are the mechanics of transition from the present plan to the new plan. It seems clear that the present plan must be continued for the balance of the lives of our present senior citizens. At the same time, POP will be started up. Of course it will be expensive for the nation to run two plans at the same time. Just as it is expensive for you to buy a new home before you have sold the old one. But in the long run, the cost of this transaction will be far less than the cost of staying with the present Social Security system and running into the \$4 trillion deficit of the next century.

Self-employed persons and women working at home who wish to make voluntary contributions can enter POP. We must solve the problem of the woman working at home who cannot afford to make voluntary contributions.

The present forfeiture of benefits by senior citizens working after retirement will be abolished.

Some may be frightened by the complexity of keeping records for POP. Thanks to the computers we now have, this does not present any problem.

Those of you who have the experience, the knowledge, the vision, and the courage to find a better Social Security system are needed. For more information about the Foundation and how you can help create a better Social Security system, write to the Social Security Citizens' Foundation, P.O. Box 2024, Philadelphia, Pa. 19108.

We the people of the United States can find a better Social Security system. This is how we can repay our debt to 1776. This is how we can be sure 2076 will celebrate the birth of our nation—and not mourn its economic death.

---

DuBois, Pa., March 29, 1978.

THE SENATE FINANCE COMMITTEE,  
Dirksen Senate Office Building,  
Washington, D.C.

DEAR COMMITTEE MEMBERS: I would like to express my displeasure over the recently enacted Social Security Bill.

You have effectively raised my tax by 50 percent or more over the next nine years without any guarantee that I will have a pension when I retire. You, the President and Congress must be naive or absolutely crazy. Did you not consider the impact on the middle-income wage earner—the productive element of this country? We are forever being asked or directed to carry an ever increasing burden.

If the taxes being presently deducted from my earnings were being set aside for my retirement or disability, as it was originally intended, my objections would not exist. But you persist in allowing the Federal government employees a much better break and you continue to make the Social Security Fund a public welfare program.

Our present mania for public welfare programs and pension in government, as well as the private sector, will surely bankrupt this great country someday.

We should learn a lesson from Great Britain with its socialism dominated by unions and in near bankruptcy and economic chaos—thanks to all they may survive for another generation.

The "Quality of Life" and "Standard of Living" of the Producers is diminishing while the Congress and the President preach otherwise.

Very truly yours,

STEVE BERETSKE.

MINNEAPOLIS, MINN., April 1, 1978.

MICHAEL STERN,  
Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building,  
Washington, D.C.

DEAR MR. STERN: You will probably be inundated with both testimony and communications regarding the social security payroll tax increases for which the Subcommittee on Social Security will be having hearings April 5 and 6.

Somehow, I hope someone manages to convey the probable very serious ramifications of both this terribly regressive taxation for those in our society who are least able to afford it and the almost certain inflationary aspects of it. This is obviously a difficult matter for Congress to decide but nonetheless, it is most profound.

It seems to me that in the drive to create a welfare state, someone with a bit of astute logic should look around to the rest of the world to see just how desirable this has been for them. I recognize that commitments have already been made to those in the Social Security system and this being the case, there is obviously a need to carry through, but financing from general revenue funds would seem to be less damaging. This would give the Congress an opportunity to come to its senses and to perhaps cut out some of the other more foolish expenditures in order to reduce both the inflationary aspects and the terribly regressive aspect of this for our citizens.

Sincerely,

DEAN VAN HORN, OPBG.

#### STATEMENT OF NATIONAL SMALL BUSINESS ASSOCIATION

This statement is submitted on behalf of the National Small Business Association (NSB) representing 50,000 individual members and 1,000 of the 1,200 Standard Industrial Classifications. We appreciate the opportunity to comment on refinancing of the Social Security System.

Because of the limited time available for the preparation of our statement, our comments must be general in nature.

The "point" Committee calling for change in the financing of Social Security is the Joint Economic Committee (JEC) and some of the conclusions contained in its Report<sup>1</sup> should be challenged.

Here in table form is our estimated impact of the Social Security Amendments passed last year insofar as benefits and taxes are concerned. As an example, the old law was out of control—a worker or his employer at age 50, in the next 15 years, based on the old law, would have paid \$25,200 for a \$15,700 benefit. Under the new law, the same worker would pay \$39,000 for a \$12,000 benefit.

<sup>1</sup> Analysis of Social Security Legislation prepared for members of the Joint Economic Committee, February 15, 1978.



ESTIMATED IMPACT OF 1977 SOCIAL SECURITY AMENDMENTS ON BENEFITS AND TAXES PROMISED BY PREAMENDMENT LAW

		Old benefits <sup>1</sup>	New benefits <sup>2</sup>	Old taxes <sup>3</sup>		New taxes <sup>3</sup>			Lost benefits	Additional taxes			Total
				Employee	Employer	Employee	Employer	Employer <sup>4</sup>		Employee	Employer	Employer <sup>4</sup>	
Age 50:													
Salary.....	\$35,000	\$15,700	\$12,800	\$25,200	( <sup>5</sup> )	\$39,000	( <sup>5</sup> )	\$57,300	\$2,900	\$13,800	\$13,800	\$18,300	\$45,900
Final salary.....	79,100												
Salary.....	27,500	15,700	12,800	25,200	( <sup>5</sup> )	39,000	( <sup>5</sup> )	45,000	2,900	13,800	13,800	6,000	33,600
Final salary.....	62,200												
Salary.....	20,000	15,700	12,300	25,200	( <sup>5</sup> )	32,600	( <sup>5</sup> )	32,700	3,400	7,400	7,400	100	14,900
Final salary.....	45,200												
Age 40:													
Salary.....	32,500	32,100	23,700	58,000	( <sup>5</sup> )	94,600	( <sup>5</sup> )	131,800	8,400	36,600	36,600	37,200	100,400
Final salary.....	131,600												
Salary.....	25,000	32,100	23,700	58,000	( <sup>5</sup> )	94,600	( <sup>5</sup> )	101,300	8,400	36,600	36,600	6,700	79,900
Final salary.....	101,200												
Salary.....	17,500	32,100	21,400	58,000	( <sup>5</sup> )	70,900	( <sup>5</sup> )	70,900	10,700	12,900	12,900	0	25,800
Final salary.....	70,900												
Age 30:													
Salary.....	25,000	63,200	43,000	116,200	( <sup>5</sup> )	189,600	( <sup>5</sup> )	208,500	20,200	73,400	73,400	19,900	166,700
Final salary.....	181,300												
Salary.....	22,500	63,200	42,300	116,200	( <sup>5</sup> )	185,900	( <sup>5</sup> )	188,600	20,900	69,700	69,700	2,700	142,100
Final salary.....	163,100												
Salary.....	17,500	63,200	37,800	116,100	( <sup>5</sup> )	146,700	( <sup>5</sup> )	146,700	25,400	30,600	30,600	0	61,200
Final salary.....	126,900												
Age 22:													
Salary.....	17,500	106,200	59,000	199,600	( <sup>5</sup> )	248,500	( <sup>5</sup> )	248,500	47,200	48,900	48,900	0	97,800
Final salary.....	202,200												
Salary.....	12,500	100,000	51,400	162,200	( <sup>5</sup> )	177,500	( <sup>5</sup> )	177,500	48,600	15,300	15,300	0	30,600
Final salary.....	144,500												
Salary.....	7,500	85,000	36,100	97,300	( <sup>5</sup> )	106,500	( <sup>5</sup> )	106,500	48,900	9,200	9,200	0	18,400
Final salary.....	26,700												

<sup>1</sup> Based on assumptions (1) that inflation as measured by the CPI can be lowered to and maintained at 9 percent per year, (2) that sufficient productivity gains will be realized to allow the average wages and hence the increase in the social security wage base to increase at 5½ percent per year, and (3) that promotional and longevity increases will allow an individual rate of salary increase of 6 percent per year.

<sup>2</sup> Estimated using assumptions in <sup>1</sup> and assuming the social security law as in effect prior to the

1977 amendments remained in effect until the employee retired.

<sup>3</sup> Estimated using assumptions in <sup>1</sup> and assuming the social security law as amended in 1977 remained in effect until the employee retired.

<sup>4</sup> No limit.

<sup>5</sup> Same as employee.

We make these observations :

1. Since there is little or no prefunding, every dollar paid by a working citizen is passed immediately back to a retired citizen. In fact, during the next few years, while the trust funds are declining, more dollars must be returned than are taken in.

2. Financing the system from Federal deficits (there are no Federal revenues left) will involve creating money, and/or borrowing money from the nation's capital markets (which long-term would be better left for productive investment) and inflation. This is precisely the vicious circle we are now in. Inflation kills investment we desperately need. It raises interest rates since investors have become quite sensitive to inflation and even the expectation of inflation.

3. We are currently funding the Social Security System on a pay-as-you-go system. The costs are going up. In addition, we expect these costs to continue to increase even if the optimistic assumptions used by the government are realized. If they are not, the cost will increase even more. The central question before you is whether the answer is hiding this fact by financing from general revenues. What it reaches the point at which it can no longer be hidden, will not workers be justifiably angry at the manner in which they were treated and the unanticipated burden they will be hit with? Some day the "piper must be paid."

4. The Joint Economic Committee (JEC) says :

"A rise in the employee tax reduces disposable income just like an increase in the personal tax. Consumption therefore declines and the resulting additional slack in the economy reduces production and employment."

The effects of tax depends on how it is used by the government. In the case of Social Security taxes, they are simply transferred to another individual so, for example, instead of your wife and you having \$1,000 to spend on consumption while your grandparents have only \$250, the grandparents may have \$500 while you and your wife have \$750. In today's economy there can be little doubt that in both cases there would be the full \$1,250 worth of consumption going on.

Under the JEC proposal, however, you and your wife should be left with \$1,000 to spend while the Federal government "created" \$250 so your grandparents could still have \$500. So there is now \$1,500 to spend on the same amount of goods and services where before there was \$1,250. Also, \$250 has been borrowed from the capital markets. The JEC would call this expansionary—but it is about time we recognized that it is simply inflationary and counter-productive. You have also caused the basic money supply to grow which to some is very inflationary.

5. The JEC Report says :

"It is important to keep in mind that the present system operates as a regressive income tax."

Perhaps the following example should be looked at more closely :

A. An employee entering the work force today who earns a salary above the wage base can, under the assumptions used in the foregoing table, look forward to paying \$312,000 in taxes for a \$66,500 annual benefit or approximately \$5,600 for each \$100 of monthly income at age 65.

B. A similar employee who earns \$7,500, however, can under the same assumptions, look forward to paying \$106,500 in taxes for a \$36,100 annual benefit or approximately \$3,500 for each \$100 of monthly income.

If, as the JEC says, the Social Security System is regressive, then so is a system that would let a worker earning \$7,500 purchase a car for \$3,500 while forcing a worker earning the wage base to pay \$5,600 for the exact same car. The system may not take as much money from the workers with higher earnings as the JEC might like, but is not regressive. Obviously, if a way could be found to take more taxes from the higher-paid employee, it would be technically even more progressive than it is now, but at what point does it stop being progressive and start being legal confiscation from a small segment of our population?

6. From the point of view of stability, does it make any difference—measuring total impact—whether taxes are taken out of the economy by Social Security or by Federal income taxes? The effect will be same. If, however, the Social Security System is financed through the general deficit (as opposed to raising income taxes to the required level to pay the benefits), the JEC would call it expansionary. Would not inflationary be closer to the mark?

7. Using the Social Security Administration's assumptions, which even the JEC agrees may be optimistic, the current system is over 1% out of balance. Therefore, the problems are primarily long-range not short-range, in nature and stem from a consistent unwillingness of Congress and the American people to face the

true cost of the system and present it openly to the American public. The current system has this one decided advantage. It makes honest men of all of us because the lack of money to pay benefits cannot be hidden. Where would we be if the prior defective law had been financed through general revenues? How much longer would it have taken to force a resolution of the problem? How much future damage would have been done if Congress could have delayed addressing the problem for say, five more years?

8. The economy as a whole is seeing a tremendous inflationary impact from the cumulative effects of continual Federal deficit spending. If proponents of general revenue assistance claim it will not be financed through the Federal deficit, this means Federal income taxes will have to be raised. Is there any reason to think this will have any different effect on the economy than an increase in Social Security taxes? The JEC says "Such (general revenue) assistance would reduce the aggressivity of the Social Security system . . ." First the JEC states the tax is regressive. Next the JEC overlooks the benefits which are quite progressive. Then the JEC declares the entire system is regressive. This reasoning does not follow the principles of logic.

The JEC appears to have decided the American people would not be willing to accept their responsibilities to prior generations unless they are prevented from seeing the true cost of such responsibilities by burying it in the general deficit where it will show up as an indistinguishable part of the current high inflation and general economic malaise afflicting our nation's economy.

9. If the 50/50 employer/employee tax rate is removed, this is borrowing from the future since, at the next increase in wage base, there will be additional benefits created but only half the additional taxes will be collected. This is because an increase in the wage base would only increase an employee's tax since the employer would already be paying tax on his entire payroll. It would also remove an important buffer in the current system since, as it now operates when the wage base is increased, it generates proportionately more taxes than benefits. This is because people at higher income levels pay proportionately more taxes for their benefits than those at lower income levels.

10. Today's retired people are our grandparents and parents, not some abstract prior generation, and some day they will be us. Therefore, it is about time the nation was given a true estimate of the cost of the benefits so that there are no future surprises such as the tax increase we have just had.

The Social Security System is reaching a mature situation where the true costs are making themselves known and this is coupled with the possibility that, if birth rates remain low, it will approach a declining situation with still higher costs. The current tax system forces the problem to be faced openly and resolved. The alternative is to bury it in general revenues.

Perhaps the only realistic solution is to continue parity financing by employer and employee, but lower these payroll costs by separating from the system those parts—disability benefits for example—which actuarially cannot be calculated.

Quite frankly we do not know the answer. There is no easy answer, but whether the present system continues, whether general revenues are utilized in whole or in part, the "piper must be paid".

Thank you for giving us the opportunity to express our views.

---

#### STATEMENT OF JAMES A. SIEFFERT

When I arrived home Wednesday evening, April 5, the headlines of our local newspaper told of the House Democratic Caucus vote, 150-57, to use income taxes and other general revenues to finance Social Security. The weekly tax guide I brought home from my office to read explained in its first article about legislative proposal S. 2501 and S. 2503. These two articles have appalled me about as much as I have ever been in my life.

I would like to start by telling you a little bit about myself. I am presently 37 years old and am truly one American who has lived "The American Dream". I have spent the last 11 years working morning, noon, and night building a small financial planning business. I have worked with American families and small business owners helping them set up goals, measuring their taxes, living expenses and savings, recommending ways in which they too can grow personally and financially in our capitalistic, free society. I have been successful at my business by setting up three priorities in my life:

The first and most important is to be true to myself. To live my life with such standards that I can look in the mirror each day and say I have done the best I can with what I have.

The second is to be fair and loving to my family. To instill in them the highest character and integrity along with values that a man could be proud to see his children grow up with.

The third is to my clients. To be fair and honest with them. To give them the highest service they deserve. Most important, to recommend to these clients nothing that I would not do myself.

I like to think that during the past 11 years I have done little to sacrifice higher values for lesser values as far as the above standards are concerned.

Because of the way I am and the way I have lived my life, I find now I must set a higher standard that must come before all else. For if I do not, then I would be denouncing everything else I stand for. This new standard will be to destroy the hypocrisy and out and out thievery this present Government is considering to bestow on the people of this country and more selfishly, my three children.

Since 1968 I have spoken out to my elected officials, written letters and tried to tell people in general of the tremendous problems the future held for Social Security. The primary cause of the problem came from our elected officials who continually, year after year, told the ignorant American people that our good Government would give them greater and greater benefits. The cost of these benefits would not be dollars, but only votes to keep the promisors in office. It came time to pay. When some studies began to show that our Social Security could be under funded by as much as 4½ trillion dollars, you just couldn't hide it any longer. It was time to stand before the American people and give them the bad news.

Although I am aware of about every solution proposed to try and make Social Security viable, suffice to say this Government had the guts to go in front of the people and say in effect "Folks, it's time to pay up. Folks, it's now time to start paying the billions of dollars it requires so you can receive those great benefits we have promised you"—or so it seemed?

Based upon the income I earn, my family and I will be affected by the maximum amount of taxes passed by the recent Social Security law. In the next 20 years this will take thousands of dollars out of this family's pocket. However, since there is little we could do about it and since drastic measures had to be taken, we must accept it. It now seems that you feel bad in taking our money. You wish to take our children's future instead.

Now we come to find our Government is really gutless. Now we come to find that our Government thinks it can continue to lie to the American people because it has found a new way to steal. That convenient way is to simply take general tax revenues and to start feeding them into Social Security. This way the ignorant American public will not know what is really happening to them. This way those in power in the future can continue to lie to the American people and promise more and more benefits without any factual accountability.

I think not. Not while I have a breath left in my lungs. Not while I have a dollar left in my pocket. I may eventually wind up in jail and you may even destroy me. I may have to give up my business, to sell my boat, my cars, my home, my stocks and bonds, give up my savings accounts, my life insurance, my retirement program and all my other assets; but while I have a breath left in my lungs and a dollar in my pocket you will not so callously and blatantly, completely and absolutely destroy the future of my three children.

What I propose to do is as follows:

1. Send this letter to every member of the United States Government who I can get addresses of.
2. Have this letter published in every newspaper that will publish it.
3. Have this letter read on every radio and T.V. station that will read it.
4. Speak in front of any groups which will listen to me.
5. To purchase time from any media which will sell it to get this message across to the people.
6. To meet with my attorneys to find any legal way to stop my federal income tax payments if this money is used to pay Social Security benefits.
7. To personally discontinue any income tax payments as long as one penny goes to Social Security benefits.
8. Anything else that I can think of or any responsible idea someone else can tell me about.

I like to think that in my 87 years I have had more "quality of life", happiness, and human freedom than 90 percent of the people who have ever lived on this earth. I also constantly tell others that anything in life worthwhile requires sacrifice. I guess it is time for me to be honest with myself and pay up. It may require me to beg for food for my family, but By God, you will not destroy my children's future when they can't even defend themselves.

### HOW TO KEEP SOCIAL SECURITY OUT OF TROUBLE

(By Peter A. Diamond, Professor of Economics, Massachusetts Institute of Technology)

In December, Congress passed the 1977 Amendments to the Social Security Act. While they voted important changes in both benefits and taxes, most of the attention has gone to the new tax increases. Over the first decade the new taxes are expected to raise an additional \$227 billion. This is a 14 percent increase in revenues. Even with this large increase, taxes are still inadequate to finance the benefits promised in the new Amendments over the long run. To cover the forecasted long run deficit would require about as much revenue again as is expected from the tax increase.

Table 1.—Forecasted deficit for cash benefits (OASDI) as a percentage of taxable payroll, for the next 75 years

	Percent
Deficit before new amendments.....	8.20
Decrease in benefits.....	4.98
Increase in taxes.....	1.78
Deficit currently forecast.....	1.46

Source: Social Security Administration, based on intermediate estimate.

And the forecasts will get more dismal with each passing year as the retirement of the postwar baby boom generation comes closer; for when that happens we will have far more retirees per worker than currently.

TABLE 2.—OASDI PROGRAM AS A PERCENTAGE OF TAXABLE PAYROLL

Years	Benefits	Taxes	Surplus
1977 to 2001.....	10.60	11.57	+0.97
2002 to 2026.....	13.46	12.40	-1.06
2027 to 2051.....	16.69	12.40	-4.29

The current tax increase has generated a sizeable backlash. A similar response can be expected to the larger tax increases on the horizon. The outcry against these tax increases can be met in three ways. One way is to do nothing, in the expectation (probably correct) that we can all learn to live with higher payroll taxes. After all, we have learned to live with rising payroll taxes in the past. Or, as is popular with many Congressmen, some other tax increase can be substituted for part of the payroll increase. This would cost the same, but might be less visible and, in some part, paid by different taxpayers. Or lastly, and best of the three options, the growth in benefits for new retirees in the future can be slowed down. One way to slow benefit growth is to delay the normal retirement age and this approach has been endorsed by many, including the New York Times. However it is the wrong way to go about it, since delaying the normal retirement age imposes the largest cut in benefits on early retirees, many of whom are in distress anyway.

#### SLOWING BENEFIT GROWTH

The case for a further slowdown in the growth of benefits is worth reviewing before considering the implications of a delay in the normal retirement age. In the 1977 Amendments, Congress cut expected Social Security benefits sub-received by new retirees will stay roughly constant from year to year. For a stantially. Under the new system, on average, the fraction of past earnings

married couple with one earner, who has regularly earned the median income, retirement benefits at 65 will be about two-thirds of earnings just before retirement. These benefits are not subject to payroll or income taxes. What is more, they grow each year to keep pace with inflation. For those with lower earnings, benefits are a larger fraction of past earnings; for those with higher earnings, a smaller fraction.

There are a number of good reasons to think that it would be a better response to current circumstances to have slower benefit growth for future retirees than the new Amendments provide. One reason is that future workers and retirees will certainly be better off than current ones because of the historic rise in standards of living. Today we expect higher income individuals to finance more of their own retirements themselves. So, too, we should expect those future retirees who have higher incomes than current retirees to finance a larger fraction of their retirements themselves. This is in keeping with the traditional goal of Social Security to provide a floor for retirement income. A second reason for smaller benefits is that we will be less able to afford them. Total Social Security benefits are expected to grow substantially relative to both aggregate wages and GNP. With individual benefits roughly keeping pace with average wages, this rapid growth comes primarily from the great increase in the fraction of the population of retirement age, particularly when the baby boom generation retires. Right now there are about 20 retirement age persons for every 100 persons of working age. By 2025, we will have 30 potential retirees per available worker—a 50 percent increase. Since the Social Security Trust Funds are small, such a large change must be met by higher taxes, lower benefits, or a combination of the two. There is no clear reason why all of the costs of adjusting to this change should fall on either workers or retirees. It is appro-

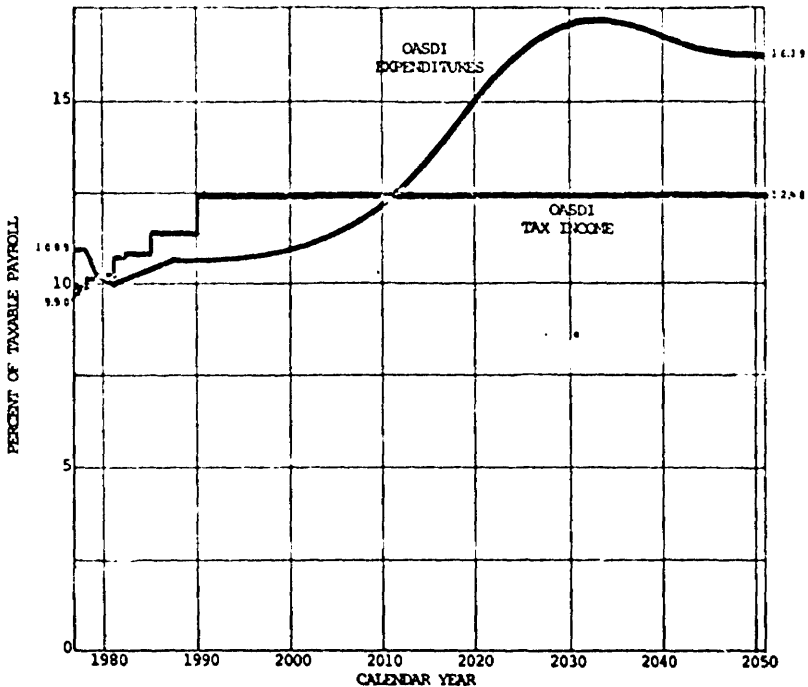
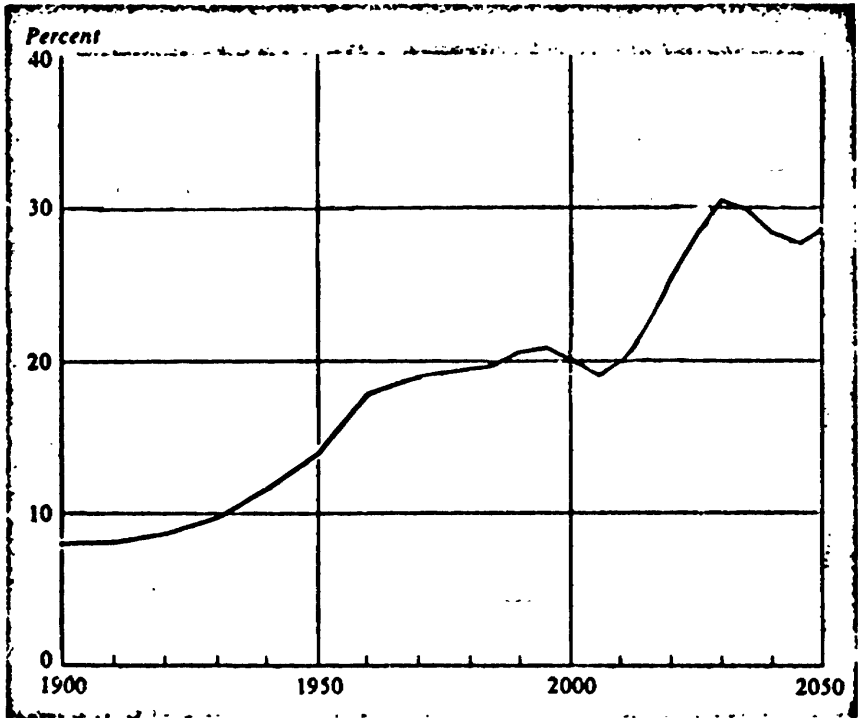


Figure 1

## The Aged as a Percentage of the Working Population, 1900-2050



Sources: 1900-70, Bureau of the Census, *Census of Population, 1970*, vol. 1, *Characteristics of the Population*, pt. 1, *United States Summary*, sec. 1 (GPO, 1973), p. 276; Bureau of the Census estimates for 1975-2050, Bureau of the Census, *Current Population Reports*, series P-25, no. 601, tables 8, 11

Figure 2

priate to share the burden of changed circumstances by both raising taxes and decreasing benefits. A third argument for slower benefit growth comes from the nature of the political process. It is inevitable that there will be future changes in the Social Security system. Both taxes and expenditures are likely to turn out at least somewhat different from what is forecast. As the social structure changes, the current system will do less well as satisfying future social needs. For example, when the current system of spouse benefits was designed most families had a single wage earner. Now a majority of families have two wage earners. There is a wide consensus that the present spouse benefits no longer represent a good system for determining benefits for different families. Similarly, the great increase in the frequency of divorce creates a need to change a system that was designed when divorce rates were much lower. Responding to a changed situation, Congress finds benefit increases much easier to legislate than benefit cuts or tax increases. If we expect to make changes in benefits, it is better to legislate benefits which may be smaller than we will eventually want. Then, Congress can use this slack to smooth the process of redesigning benefits. Such slack should shorten the time until needed reforms are voted and should improve the design of reform. The current system, however, is designed to have no slack even when the ratio of retirees to workers does not change.

## DELAYING THE NORMAL RETIREMENT AGE

Now we can examine the implications of the proposal to delay the normal retirement age by three years. To understand how this might work, let us see how the choice of retirement age affects benefits under the new Amendments. To figure the benefits for a new retiree, the Social Security Administration first figures the benefits he or she would get if the new retiree were 65 and without dependents. If the retiree is younger than 65, benefits are reduced—a

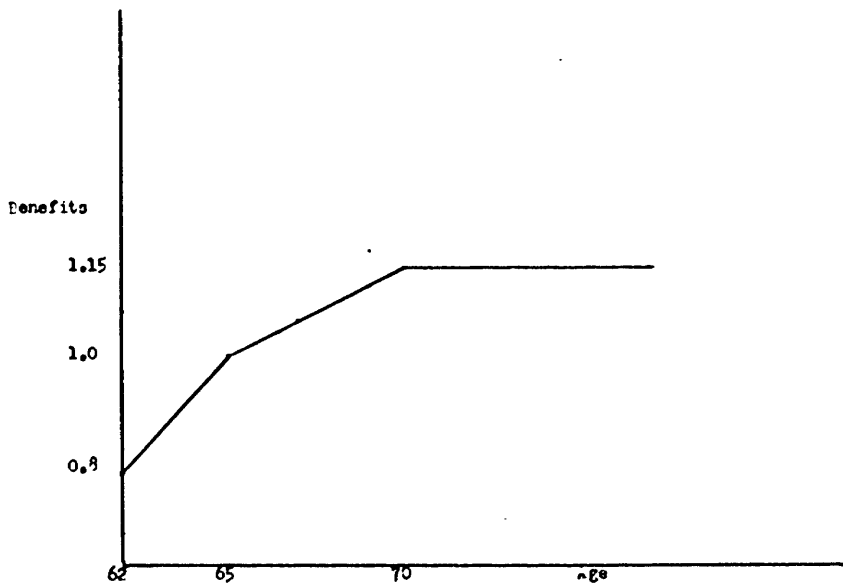


Figure 3. Benefits at different retirement ages

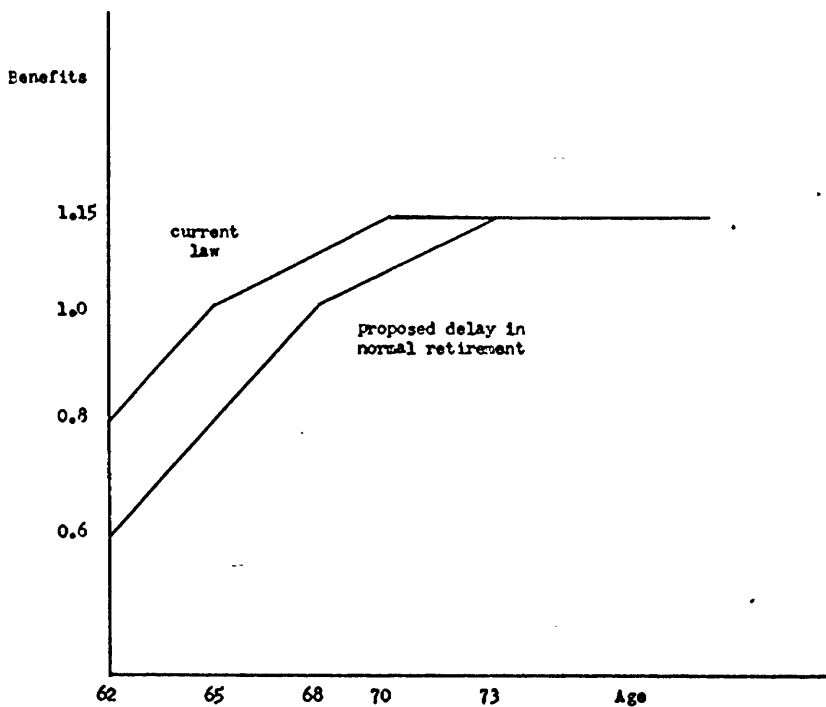


Figure 4. Benefits at different retirement ages



62 year old retiree is subject to a 20 percent reduction. If the new retiree is over 65, benefits are increased. Someone retiring at 70 gets 15 percent more in benefits. What is more, everyone over 70 can receive benefits whether or not they have stopped working. How would this change if the normal retirement age were changed to 68? The first step would be the same—benefits would be calculated assuming the new retiree were the normal retirement age 68. If the retiree is 68 he receives precisely these benefits under this proposal. However, under present law he would receive a 9 percent increase in benefits for working three years beyond normal retirement at 65. The result of delaying the normal retirement age is that someone retiring at 68 does not receive the 9 percent increase. For a new retiree who is 65, a delay in normal retirement implies a 20 percent reduction in benefits rather than full benefits for retirement at the normal age. The difference between current law and this proposal is shown in Figure 4 which shows that anyone retiring before reaching 73 receives smaller benefits.

Delaying normal retirement presumably also delays the age at which benefits are paid without retirement. With a three year delay, those between 70 and 72 who have high earnings lose their benefits from this proposal. In addition, the determination of benefits for people between 62 and 64 would change. They might be denied benefits altogether (as are those between 59 and 61 today). Or, the definition of disability might be weakened for them, with the same reduction in benefits for those meeting only the weaker disability requirement as for early retirement at present (20 percent for a 62 year old). Or, they might be eligible for retirement benefits with the same reduction in benefits per year as at present for the number of years they are shy of 68 (a 40 percent reduction, rather than 20 percent, for a person of 62). Or possibly both of these benefit opportunities might be available.

The argument for delay of normal retirement is straightforward. Starting in 2010 there will be a rapid drop in the proportion of younger workers in the adult population. Employment opportunities for older workers will improve. What is more, they will be healthier and longer-lived than are older workers today. If everyone worked an extra three years, there would be more payroll tax revenue and fewer benefit recipients. The savings for the Social Security fund would be substantial. With the proposal, those who do work three years more will actually be accepting a cut in benefits since they will lose three years of benefits as a result of working longer. But there is no guarantee that very many people will choose to work the extra three years just because of the change in benefit calculations. Some people become unemployed and are unable to find another suitable job. Those in poor health may find it more and more trying to continue working and want to stop if any money is available for retirement. Still others will feel they have enough money, even with the decrease in benefits, and will choose to stop working. For all of those people, the decline in benefits follows the pattern described below, and this pattern does not make sense.

There is no good reason to have earlier retirees bear such a large proportion of the needed benefit decrease. By delaying the normal retirement age 68 year old retirees lose  $8\frac{1}{4}$  percent of benefits; 65 year old retirees lose 20 percent of benefits; and 62 year old retirees without sufficient disability lose 25 percent of benefits. But younger retirees generally have longer retirements to finance. And many of those needing to retire early will have had shorter times to accumulate money since they started saving for retirement. It seems perverse to have these early retirees face disproportionately large cuts. It seems even more perverse when we consider the circumstances of those who are now the earliest retirees—those at age 62.

At present well over half of new male retirees and of new female retirees are under 65, and 60 percent of them are claiming retirement benefits at 62. These people were surveyed in detail in 1968, when the unemployment rate was only 3.6 percent. Even with such low unemployment, 41 percent of 62 year old male retirees had been out of work at least six months before becoming eligible for benefits. One in six of the male retirees had been out of work for at least three years before getting Social Security benefits. Over half of them say that bad health is the main reason for leaving their last job. It would be intolerable to provide no benefits for people who retire under these circumstances. Since many of these early retirees have low benefits already, cutting their benefits by 25 percent seems unreasonably harsh. Even if a weaker definition of disability

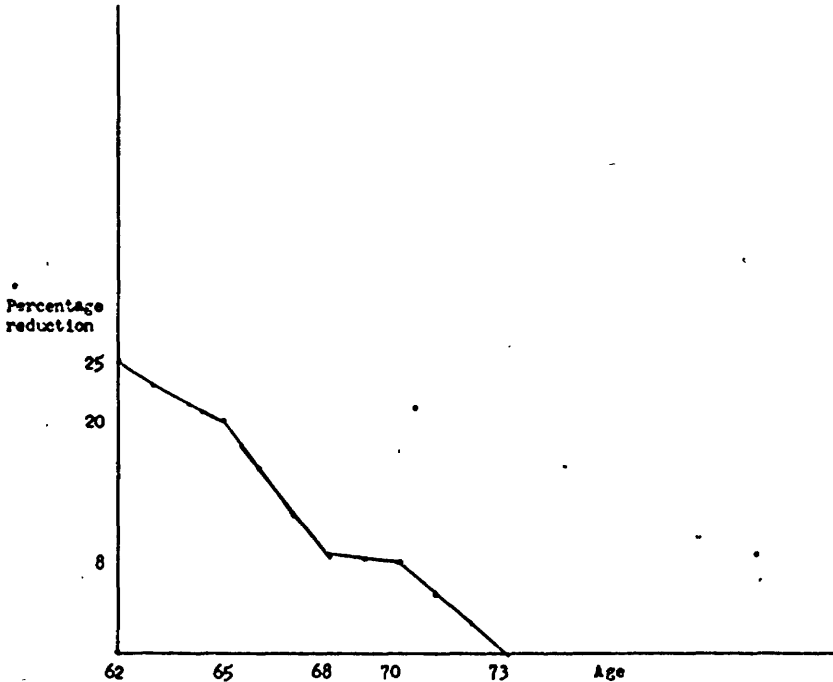


Figure 5. Percentage reduction in benefits if normal retirement is delayed three years.

were adopted for older workers, many of the hard cases would still be missed; for example, some are unable to find a suitable job without having sufficient measurable disability and others are weakened and find work much harder without having had a single experience which would permit a finding of disability. If benefit decreases were related to the size of benefit rather than the date of retirement there would not need to be so much concern about inadvertently concentrating benefit decreases on those least able to bear the cut. Of course, the more generous the treatment of early retirees the less money saved by delaying normal retirement.

#### INCENTIVES FOR LATER RETIREMENT

To legislate a delay in the normal retirement age does not guarantee that a large fraction of workers will work longer (much less three years longer). With such a delay, there is a change in the incentives to work longer. If these new incentives were very successful, this would strengthen the case for delay. However there are better systems for encouraging a longer working life. Merely delaying the normal retirement age would preserve the structure of work incentives contained in the new Social Security Amendments. Dissatisfaction with the structure before the new Amendments led to two of the legislated changes—a tripling in the rate of increase in benefits for working beyond age 65 and a decrease (from 72 to 70) in the age at which benefits are paid without retirement. While this represents some improvement, dissatisfaction remains because the payoff for working longer is still not well designed.

Let us look at the incentives for later retirement and examine how they might be changed to encourage more work without too great a financial cost.

The financial incentive for later retirement is the larger income that comes from working longer. The incentive is made up of two parts—an immediate gain and an increase in future benefits. The immediate monetary gain from working is the gross wage plus fringe benefits less income taxes, less payroll taxes, less sales taxes when the income is spent, less cost of working (like commuter costs), less any pension benefits which are not received as a consequence of continuing to work. For someone eligible for a pension on retirement, the immediate gain from working is the amount the net wage exceeds the pension.

The second part of the financial incentive to work is any growth in pension benefits as a result of postponement in the start of benefits. Social Security benefits increase when benefits are not claimed by a worker who is between 62 and 70. For those between 62 and 65, additional work decreases the size of the reduction for retirement before 66. For those between 65 and 70, additional work raises the size of the increase for retirement after 65. Additionally, the earnings of someone over 62 might raise his lifetime average earnings. (As the calculation is done, they can not lower one's lifetime earnings.) Any increase in lifetime average earnings results in an increase in benefits.

To pay benefits independent of work at age 70 increases the incentive to work for those over 70, since they do not forego benefits any longer. This payment also increases the incentive for work at younger ages for anyone considering working past 70. These younger workers can then see when the increases in benefits from further work will show up as cash in hand. Moving the date of benefit collection closer makes pension growth more valuable and so a greater incentive to work.

Both parts of the incentive to work can be measured in dollars. But different workers will regard the two parts differently. Those with longer life expectancy will find future benefit increases more valuable than those with shorter life expectancy. Those planning on retirement sooner will begin to receive cash sooner from future benefit increases and so find future benefit increases more valuable. Those with a greater need for money currently will find future benefit increases less valuable. The way that current work increases future benefits is complicated and not widely understood; many workers may underestimate the value of this incentive. Thus the incentive for further work needs to be carefully divided between higher current income and the increase in postponed benefits.

#### CHANGING WORK INCENTIVES

It has often been suggested that everyone over 65 receive benefits whether or not they are employed. We could even start paying everyone benefits at 62. To finance such a benefit increase we would have to decrease the level of benefits or increase taxes further. Such a change would eliminate much of the problem of work incentives. However it will also eliminate two of the important features of Social Security—higher benefits to those with greater need and insurance for those who are unable to continue working. Even among the elderly, earnings of workers are a very large source of income. Those who continue to work are much better off than those who do not. So, in order to give greater benefits to those with greater need, it is better to give higher benefits to those who retire early, financed by lower benefits for those who retire late. In this way we also provide insurance for each worker. If a worker stays healthy and employed, he does not receive benefits. If he needs to retire he can collect larger benefits than could be financed if all the working elderly received benefits. If postponed benefits grow too rapidly, there is no saving to finance larger benefits in the event of early retirement. The growth in benefits must not fully compensate a worker for the benefits he foregoes by continuing to work. But, the insurance which is provided by a slower growth in postponed benefits creates a problem with the incentive to work. The need for effective incentives must be balanced against the desire to provide insurance and to give larger benefits to those with greater need.

Taking all these considerations together, does delaying the normal retirement age give us a good set of incentives for further work? The answer is no. It makes benefits too small for those who need to retire early; it gives too small a return for work past the normal retirement age, and it gives too much of the incentive in the form of larger future benefits rather than current income. As noted earlier, a delay in the normal retirement age would concentrate benefit cuts on early retirees. It also is not efficient in providing incentives.

A delay in normal retirement would preserve the unsatisfactory current pattern of much more rapid growth in postponed benefits for those who are younger. The strength of an incentive from a postponed benefit increase depends upon the amount of the increase and the number of years the worker expects to collect

the higher benefits. The older the worker, the fewer the expected years of benefit collection. Therefore, to maintain incentives, postponed benefit growth must become more rapid, not less rapid, as the worker ages. In addition, benefit increases from previous postponement imply that older workers are giving up larger benefits by continuing to work. Unless their wages are growing even more rapidly, larger benefits represent a decrease current net gain from working. Typically, wages of older workers do not grow more rapidly than their benefits; the benefits grow with inflation and increase as the individual continues to work. If no other changes are made, it would be good to further increase the rate of benefit growth for those working past normal retirement.

However incentives will be even better if some of the incentive is paid in partial benefits for those who do continue to work. For example, 15 percent of benefits might be paid to people who are 65 and continue to work, with 85 percent subject to the same retirement test as at present. For those who reach 66, 30 percent could be paid independent of retirement. This percentage could grow until full benefits were paid at 70 as is now the case. This approach encourages people to work longer in a better way than we have now or would have with delayed retirement.

TABLE 3.—PROPOSED PARTIAL PAYMENT OF BENEFITS

(In percent)

Age	Independent of retirement	Subject to earnings limitation
62 to 64.....	0	100
65.....	15	85
66.....	30	70
67.....	45	55
68.....	60	40
69.....	75	25
70 plus.....	100	0

## SLOWING BENEFIT GROWTH

A delay in the normal retirement age is unduly harsh on many unfortunate early retirees and does not have a good system of work incentives. To finance an improvement in work incentives and to avoid the prospective tax increases, an alternative method of slowing the growth in benefits is needed. One method would be to phase in a series of across-the-board decreases in the benefit tables which apply to new retirees in the future. A better method would be to replace the wage indexing in the 1977 Amendments by the use of a price index in the calculation of earnings and benefits. In this way the benefits in dollars of constant purchasing power would be determined by the individual's history of earnings in dollars of constant purchasing power. After a transition, retirees of different ages would receive the same benefits if they had the same average earnings in dollars of constant purchasing power. Under the present system, retirees who are younger receive larger benefits than those who are older and who had the same average earnings in real dollars. This difference causes wage-indexing to be a more expensive system. Price-indexing is also fairer to older retirees who would naturally share in the growth of the economy when that growth is used to finance further benefit increases.

There is now considerable pressure to decrease the payroll tax. Rather than a simple shifting to another tax, reexamination of the future growth of benefits is called for. The proposal to delay the normal retirement age does not stand up under close scrutiny. It is time for a more thorough overhaul of the method of determining benefits.

KRIEGER-CAMPBELL, INC.,  
Oakland, Calif., April 11, 1978.

MICHAEL STERN,  
Staff Director, Committee on Finance,  
Dirksen Senate Office Building,  
Washington, D.C.

Gentlemen: We have been following with interest some of the proposed legislation which would provide a general revenue contribution towards the cost of Social Security benefits.

The fatal danger with such proposals is that the onerous and direct burden to employees and employers for Social Security taxes will no longer be apparent to the general public if part of the benefits are funded from general revenues, the public will not feel the pain.

For years Congress has recklessly increased the Social Security benefits for political and not humanitarian reasons. Election year Social Security increases have been as predictable as tomorrow's sunrise.

We want the public to know the price that they are paying for the reelection of their senators and congressmen. To start to disguise the increases by partial funding from general revenues would only exacerbate a situation which is already out of control.

As a small employer, we pay a combined total of 12.01 percent of our covered compensation to provide benefits for a program which has exceeded the original purpose for which it was intended.

Therefore, we urge you to keep the Social Security tax structure as it is, i.e. a direct burden on employees and employers so that they may continue to be aware of the inordinate costs of these programs.

Sincerely,

ROYAL G. KRIEGER, *President.*  
RICHARD M. CAMPBELL, *Vice President.*

THE BUSINESS ROUNDTABLE,  
New York, N.Y., April 17, 1978.

HON. GAYLORD NELSON,  
*Chairman, Subcommittee on Social Security, Finance Committee, 2227 Dirksen Senate Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: It is my privilege to submit for the written record the statement of The Business Roundtable in response to your hearings on Social Security legislation this year.

Sincerely,

JOHN POST.

Enclosure.

#### STATEMENT OF THE BUSINESS ROUNDTABLE

The 1977 action of the Congress to strengthen the financing of the Social Security System had, and continues to have, the support of The Business Roundtable, as a most viable and practical approach to assure benefits to present and future Social Security participants.

Congress recognized that the financing of Social Security was in serious trouble, that income was less than outgo and that the Trust Funds were on the verge of bankruptcy. Congress and the President faced up to the difficult and unpopular task of increasing Social Security taxes to maintain the necessary balance between income and outgo and restore confidence in future financing.

The recent action of the Congress reinforced the historical allocation of costs as among employees and employers, and generated business confidence by adhering to long standing and proven principles which underlie the System.

We know that Congress did not complete the job of Social Security review in 1977. Congress has specifically called for a restudying in the months ahead of many of the controversial and complicated Social Security issues, including a re-examination of the financing of the program.

Some of the media have highlighted the payroll tax increases without indicating the necessity for them, their magnitude with respect to the overall program or exactly which taxpayers will bear the brunt of the increase. This has produced some vocal reaction from the public, although a recent Gallup poll shows that in general the average person realizes the increases were needed.

We believe that the payroll tax changes enacted in 1977 need to be put into proper perspective. These changes increased the tax rates and the wage base in future years. The additional tax rate increase in 1979 and 1980 is .08 percent which means that an individual earning \$15,000 will only be paying an additional \$12 per year. We do not believe this nominal increase warrants legislative action to "relieve the tax burden" for this individual.

The bulk of the additional taxes for these two years will be placed on the higher paid individual as a result of the increase in the wage base. We realize that concern for the reported reaction of this constituency exists, and the three-to-one vote in the House Democratic Caucus urging the Congress to amend the

1977 Social Security law through the use of general revenue funds reflects this concern.

We believe, however, that the Congress should not react hastily to political pressure. The National Commission established by the Social Security Amendments of 1977 will likely begin its work in the next few months. The work of the Commission should be allowed to proceed with its objectives, i.e. to take a hard look at the System and changes thereto. Its carefully conceived recommendations can be utilized early in the 96th Congress.

It has been stated that Social Security taxes will increase by \$227 billion over the next 10 years. The fact is that Social Security is a major, costly government program paying retirement, disability, survivors, hospital and other benefits to millions of beneficiaries each month—almost 34 million beneficiaries in November 1977 alone—benefits totalling over \$9.5 billion per month. Sufficient taxes have to be raised to pay this large obligation; this required the \$227 billion increase enacted by Congress.

Now there are proposals that would undo the action of Congress and start financing some of the Social Security costs out of general revenues. We believe that Congress should stand its ground.

General revenue financing undermines basic Social Security principles, including benefits paid as a matter of earned right. Additionally, the pay-as-you-go payroll tax financing program encourages greater accountability and legislative responsibility. Under our present system the legislator who urges increased benefits has the duty to finance them directly through increased Social Security taxes and cannot submerge them in general revenue taxation.

Again, we urge that the review work already planned by Congress move ahead in orderly fashion. We further urge that Congress not act now in haste so as to possibly undo its courageous work last year.

DONALD S. MACNAUGHTON,

*Chairman, Social Security Task Force, The Business Roundtable and Chairman; The Prudential Insurance Company of America.*

---

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT,  
NATIONAL TREASURY EMPLOYEES UNION

I am Vincent L. Connery, National President of the National Treasury Employees Union. Our union is the exclusive representative of nearly 100,000 Federal employees throughout the Departments of Treasury and Energy.

We very much appreciate this opportunity to present our views on the funding of the Social Security System, particularly any proposals which may require universal coverage for Federal employees.

In this regard, at the outset, we must register our unequivocal opposition to S. 2880, which would require that all Federal employees hired after January 1, 1980 must be enrolled under the Social Security system. We believe that this bill is premature and violates the Congressional mandate that a two-year feasibility study be conducted before any action is taken to place Federal workers under the Social Security System.

The issue of combining Civil Service retirement and Social Security benefits is highly complex. To fully appreciate the intricacies involved, it is helpful to review the history of the Civil Service retirement system.

In 1920, the United States Congress enacted legislation which for the first time, established a universal pension system for career employees in the Federal service. The purpose of the system was then, as now, to provide these employees with an adequate income which would allow them, upon retirement from Government Service, to live out their remaining years in dignity and comfort.

Since its inception, however, the Civil Service Retirement (CSR) system has received only tenuous support from the Government whose employees it was designed to serve. While Congress statutorily mandated the amount of the Federal employees' contribution to the system, the government's share, as the employer, was largely left to the discretion of the Chief Executive.

In many instances, despite the recommendations of pension experts and actuaries, the government's contribution was less than that required to meet normal costs; in other instances, the government made no contributions at all. As a matter of fact for the first eight years of its existence, the Civil Service Retire-

ment system was entirely financed by employees who contributed at the rate of 2.5 percent of salary from 1921 through 1927; 3.3 percent in 1928; and 3.5 percent in 1929.

We know of no other major pension system in the world which could have remained viable under these conditions where the employer did not meet its share of normal costs. In our opinion, the continued existence of the CSR system should be viewed as a tribute to those pioneer Federal employees who carried the major share of the financing burden in the early years of the system.

From 1929 through 1957, the Chief Executive did recommend appropriations in varying amounts to meet the government's share of normal costs and to liquidate its debt to the system, the unfunded liability, by the end of the century. However, from 1929 through 1935, the employees' contribution, which was set by statute at 3.5 percent of salary, vastly exceeded the government's contribution, which ranged during this period from a high of 2.6 percent of covered payroll in 1934 to a low of 2.3 percent in 1932. In the remaining years of this period, the government contribution rate was set at either 2.4 percent or 2.5 percent. Not until 1936 did the government's contribution exceed that of the employees.

From 1936 through 1942, the Federal employee's contribution to the retirement system remained fixed by Congress at 3.5 percent. During this period, the government's varied between 4.1 percent of covered payroll in 1942 to an all-time high of 7.1 percent in 1940. It was not until 1974, however, that the government's contribution rate would begin again to approach the 1940 level.

In 1943, the employees' contribution was raised to 4.7 percent of salary. Concurrently, the government's share dropped to 2.2 percent. Similarly, from 1944 through 1948, the employees' contribution was increased and fixed at 5.0 percent of salary. During this period, the government's payment was again, with the exception of 1948, when the government contributed 5.2 percent of covered payroll, less than that of the employees. In these years, the government's contributory rate was 3.3 percent in 1944; 3.4 percent in 1945; 4.4 percent in 1946; and 4.3 percent in 1947.

In 1949, the employee contribution rate was, again, adjusted upward to 5.8 percent, while the government's share in that year fell to 4.1 percent. During the next seven years, 1950 through 1956, the employee contribution rose to 6.0 percent, while the government's share fluctuated widely, plummeting in 1954 and 1955 to less than one percent of covered payroll. In 1957, the Government's contribution rose to 5.2 percent of payroll while the employees payment increased to 6.3 percent.

By 1958, this erratic approach to funding the government's obligations to the Civil Service Retirement system had precipitated an unfunded liability of \$27.5 billion dollars. In an attempt to make up for the government's past deficiencies in meeting its obligations to the CSR fund, Congress, in 1958, enacted the Civil Service Retirement Act Amendments, which became effective in fiscal year 1968.

In accordance with the provisions of this Act (Public Law 84-854), each employing agency was required, for the first time, to contribute a portion of its operating appropriations, in an amount matching the employees' contribution, to the CSR trust fund. The initial contributory rate for agencies in 1968 was 5.8 percent of covered payroll; thereafter, it has matched the employees' contribution rate, set as 6.5 percent from 1969 through 1969; 6.7 percent in 1971; and 7.0 percent thereafter.

Public Law 84-854 further mandated that, in an effort to determine the cost of future obligations, Congress estimate the amount of appropriations from general funds that would be necessary to meet the normal costs of the retirement program plus the interest payments on the unfunded liability. However, the law did not require that these appropriations actually be made, but left that to the President's discretion. Interestingly enough, aside from the agencies' share, no contributions from general revenues were made to the fund in 1958, 1959, or 1960. Thereafter, until 1971, the government's contribution from general revenue was less than one percent.

By 1969, when Congress enacted Public Law 91-93, the unfunded liability of the Civil Service Retirement Fund was in excess of \$60 billion. Public Law 91-93 was the result of years of study of the Civil Service Retirement system by Congress and the Civil Service Commission, and it was designed to put the system on a sound financial footing.

Earlier, a Cabinet-level Committee on Federal Staff Retirement systems had predicted that, if the haphazard method of government funding continued, the

Civil Service Retirement system would be depleted by 1990. In order to prevent the demise of the Retirement program, Public Law 91-93 provided for several new concepts to be utilized in financing the Civil Service Retirement system.

First, the law set the agency and employee contribution rates at 7.0 percent each, for a combined income to meet normal cost of 14 percent of covered payroll. Second, the law required that the government amortize future liabilities created by benefits increases in equal installments over a thirty-year period. Third, the government was required to pay all interest on the unfunded liability. Lastly, the law directed that retirement benefits based on military service be paid from general revenues. With few exceptions, the financing mechanisms established by Public Law 91-93, are still in use today.

In the *Report of the Private Sector Consultants on the Financing of the Civil Service Retirement System*<sup>1</sup> submitted to the Civil Service Commission in April of last year, the consultants state that the primary reason for the continued growth of the CSR unfunded liability—currently in excess of \$116 billion—has been the failure of the Federal government to meet its obligations to the fund. We have attempted by this brief summary of the history of the government's irresponsible approach to financing the system, to confirm and underscore our concurrence with this finding.

Even the distinguished Chairman of this Subcommittee has acknowledged that the primary reason the Civil Service Retirement fund is "in a critical financial condition" is the government's history of failure to meet its share of matching contributions to the CSR fund. Yet, there are those in Congress and the media who are seeking to convince the public that the blame for the fund's current deficiency must be borne solely by the Federal worker.

Recent criticism of the Civil Service Retirement system have categorized the benefits as "luxurious" and disproportionate with those of other pension systems. These attacks have gathered momentum to coincide with recent, vituperative characterizations of Federal employees as "lazy" and "incompetent," do-nothings who get a free ride at the taxpayers' expense.

We believe that these distortions are total unwarranted, and are part of a consolidated, well-orchestrated effort to undermine the job and retirement security of Federal employees. Many, in fact, are aimed at justifying raids on the Civil Service Retirement and Disability funds.

Just last year, in an attempt to divert the CSR funds to the ailing Social Security system, some members of the House Ways and Means Committee led an abortive effort to mandate Social Security coverage for all Government workers. The rationale behind this effort was that since the financing for the government's past and future obligations to the CSR system would have to come from general revenues, and since the Social Security system was in such need of additional revenues to remain solvent, that the logical solution to the financing problems of both systems was to merge the two. Such logic is comparable to mixing apples with oranges.

Unlike the Social Security system, which was established in 1937 as a means of supplementing the income of this nation's elderly or disabled citizens, the Civil Service Retirement system was intended to be a vested pension system, financed by government and employee contributions. We submit to this Committee that Federal employees have fulfilled their responsibility to the system more than admirably.

In 1977, the maximum retirement contribution for Federal employees was \$2772. In 1978, this was increased to \$3325. By participating in the system, which is mandatory, the employee is entitled to an annuity computed on a percentage of salary, which varies in accordance to the length of government service. According to the staff report of the Civil Service Commission's Bureau of Retirement, Insurance, and Occupational Health issued in April 1977, these "luxurious" benefits amount to little more than \$6000 per year, on which the annuitant is taxed.

By contrast, in 1977, the average worker under the Social Security system, contributed a maximum of \$965 to the system. This year, because Congress enacted emergency financing legislation to "save" the Social Security trust funds, the maximum contribution will rise to \$1,071. Yet, for this rather small contribu-

<sup>1</sup> Park R. Davidson, Burlington Industries, Inc.; Dan M. McGill; University of Pennsylvania; Marc M. Twiney, Ford Motor Company. Report of the Private Sector Consultants on the Financing of the Civil Service Retirement System; April 15, 1977.



tion when compared to that required of Federal employees, Social Security retirees may draw annuities of up to \$5000 and their pensions are tax exempt.

In addition, there are millions of Social Security recipients—widows and dependent children, for example—who have never contributed one cent to the Social Security funds, yet, they are eligible for benefits which cost the taxpayers billions of dollars each year.

We believe that the fundamental issue before this Committee is not that the benefits under the Civil Service Retirement system are too liberal to be underwritten by the Federal government, but rather, that the benefits Congress has extended under the Social Security system are grossly underfinanced.

Congress recognized this problem last year in enacting Public Law 95-216, the provisions of which are designed to put the Social Security trust funds on a sounder financial footing. There was, in the course of considering the legislation in the Ways and Means Committee, an effort to absorb the Civil Service trust funds by mandating universal Social Security coverage for Federal employees.

Proponents of this plan viewed the infusion of these untapped revenues into the ailing Social Security trust funds as a sort of "quick fix" to stave off the system's impending demise. Fortunately, the wisdom of the full House came to the fore, and Congress decided instead, to study the issue of universal mandatory coverage for two years before making any changes in the Civil Service Retirement system.

Under the circumstances, we wholeheartedly endorsed this Congressionally mandated study and we believe that it would be ill-advised and precipitous to take any action to revise the CSR system, until its completion. A most thorough and deliberate examination of all the issues involved must be constructed before there is any attempt to merge the Civil Service retirement and Social Security systems.

There are now many unanswered questions. For example, if an integration of the CSR and Social Security System is mandated, how will the Civil Service system be financed? Would a merger of the two systems require a dual contribution by employees to underwrite the cost of benefits accrued under both systems? If such a system were in existence now, the contribution rate would be 13.05 percent, assuming that the employee were required to contribute at present rates.

Clearly, many Federal employees could not now afford such rates and as the Social Security tax rate continues to rise each year, in accordance with the provisions of Public Law 95-216, the contribution rate would become even more prohibitive.

In addition, the study group must determine if employees would be given the option of electing coverage under only one system. Would participation in one system be mandated and supplemented by partial coverage in the other at a lesser rate of contribution? If Congress mandates that Federal employees be enrolled under the Social Security System, with the option to elect supplemental coverage under the CSR system, would the reduced contributions to the CSR fund be sufficient to insure that the future benefits of employees already vested in the CSR system will not be sacrificed?

Three times before, in 1960, 1965 and 1972, the Ways and Means Committee has investigated the question of merging the two systems and three times, it concluded, that no acceptable method of accomplishing the merger had been discovered. Now a two-year study of this issue is just commencing. Yet, on April 11, the Chairman of this Subcommittee, without full knowledge of the complexities of the issues, and despite a Congressional mandate that no action be taken on the issue pending completion of a study, introduced legislation which would require that effective January 1, 1980, all new Federal employees be enrolled under the Social Security system.

We are indeed, disappointed and highly concerned by the Chairman's action. We believe that until the Congressionally mandated feasibility study is completed, no action of this type should be undertaken. If the study, upon completion, can answer some of the pressing questions surrounding universal Social Security coverage and assure us that a merger of the two systems will not effect a dilution of benefits for present and future Federal retirees, we will carefully examine the proposal. Until that time, however, we will remain firm in our opposition to S. 2880 and all other legislation aimed at mandating Social Security coverage for Federal employees.

CRAMER TRUSTS,  
Hollywood, Fla., April 3, 1978.

Mr. MICHAEL STERN,  
Staff Director, Committee on Finance,  
Dirksen Senate Office Building,  
Washington, D.C.

DEAR MR. STERN: As a preface to this submission, it has been my good fortune to be a beneficiary of Social Security for many years and not dependent upon the monthly payments for existence. Therefore, I feel somewhat obligated and wish to contribute my energetic efforts to be beneficial to those who rely upon the maximum or the entire source of income for their existence especially since it has been and continues to be necessary to almost annually to increase the tax base of the workers, the employers and the self-employed in an apparently hopeless effort to maintain solvency of the fund thereby increasing the cost of goods and services vitally necessary for those whose Social Security benefits remain fixed and least able to withstand any increase in living costs.

After 40 years of experience with our Social Security System, Congress is still unable and perhaps incapable of creating a legislative program that is financially sound and equitable to those whose sole existence is contingent upon the benefits received but periodically subjected to continual refinancing approximately every two years to avert insolvency. It is my opinion and quite sure generally accepted that mixing politics with sound operation of any project is bound to fail eventually and such is the case of our present system.

The recently enacted legislation substantially increasing contributions by employees, employers and the self-employed appeared to be a serious misjudgment of its ultimate effects particularly for those who suffer greatly from inflation brought about by the additional costs as well the future beneficiaries who expect to receive increased benefits only to eventually find the same conditions evident today, that is, the fund will be unable to meet its obligations and then find the need for substantial increase in the payroll taxing income.

There appears to be no end to the present routine of deficit operation unless the political motivation is definitely removed and replaced by a sound and solvent system.

A Social Security or Pension system will never succeed if the expected benefits are continually manipulated and generally exceed what has been actually paid for. This is where the politicians get into the act and until now have been successful by promising retirement benefits that cannot be delivered and they unfortunately continue their Washington tenure every 2 and 6 years.

I am sure our highly successful and top-rated insurance companies could develop a plan that would adequately satisfy the needs of our Social Security System at a lower cost and greater benefits such as pointed out by the Travelers Insurance Company in a recent article, as follows:

#### THE SOCIAL SECURITY MESS

Sir: Your poignant analysis of our Social Security mess (*Fact and Comment*, Nov. 15 p. 27) gives even more credence to the need of a private pension plan for the average worker. A comparable \$1,500 annual deposit made for the average worker of 25 into a private fund for 40 years and earning 7% compound interest would amount to a tidy sum of \$320,315. This money would purchase at age 65, a conventional single-premium annuity that would pay over \$2,600 a month to the annuitant for life, or ten years certain to his beneficiary if death occurred before he reached age 75, providing a far greater benefit than ever projected by the most optimistic of our bureaucratic actuaries.

ALBERT R. COMAN, Jr.

The entire system of Social Security could be allocated to 4 or 5 of the most experienced Insurance Companies and once and all time remove the political together with other unsound factors now responsible for the condition of the Fund and its high cost of operation.

With our legislative bodies in the House of Representatives and Senate about to again "Muddy" the Social Security waters, I not only sincerely but desperately recommend the project be totally removed from those who during 40 years could not develop a solvent and workable system and place the project with those of successful experience over the years and remove the plague in store for our present beneficiaries and the current tax supporting employees, employers and the self-employed who by this time find little hope for relief.

I am certain the general public would most heartily accept this recommended change.

Social Security has now become a very significant part of our economy and therefore cannot be ignored much longer without serious political consequences. Delays can only hasten the problem of insolvency, relief and social welfare already considered inadequate in the World's richest community.

Finally, I am fully aware that from a political standpoint, the suggestion herein advocated will not find many supporters especially among those who have been involved in the creation, administration and operation of this practically insolvent system. Because of the importance of your Committee Assignment, I trust the matter of Social Security will receive a unbiased hearing and result in a Non-Political solution at the very best remedy for blending a vital requirement with a sound economy.

Respectfully,

WM. W. PAUL.

C. H. STUART, INC.,  
Newark, N.Y., April 21, 1978.

SENATE FINANCE SUBCOMMITTEE ON SOCIAL SECURITY  
Dirksen Senate Office Building,  
Washington, D.C.

GENTLEMEN: Please include the following statement as testimony for the record on the subject of Social Security financing.

C. H. Stuart Inc. is a New York state corporation. Our administrative offices and primary manufacturing facilities are located in the upstate village of Newark, New York state and we also have manufacturing facilities in Merrimack, New Hampshire and Hialeah, Florida. We distribute our products using the direct or in-home method. This distribution is carried out by a sales force which, during any given year, numbers between 75,000 and 100,000 people. To recruit, train and supervise such a force requires a management team of close to 10,000 people.

To remain competitive with other methods of retailing is difficult because of the high operating costs which are characteristic of direct selling.

Therefore, any increase such as the scheduled increases for Social Security would be a burden and we respectfully request that consideration be given to other ways of keeping the fund solvent. One such proposal would be to include government workers under the Social Security program and thus broaden the base.

Another proposal would be to remove the medicare program and thus return the Social Security program to its original purpose. We at C. H. Stuart recommend that full consideration be given to each of these proposals so that the scheduled increases in payroll taxes will be unnecessary.

Thank you for including this statement.

Cordially,

RICHARD W. GOODMAN,  
Vice President, Governmental and Consumer Affairs.

MACHINERY AND ALLIED PRODUCTS INSTITUTE,  
April 21, 1978.

HON. GAYLORD NELSON,  
Chairman, Subcommittee on Social Security of the Finance Committee, Dirksen  
Senate Office Building, Washington, D.C.

DEAR SENATOR NELSON:

#### HEARINGS ON SOCIAL SECURITY FINANCING

The Machinery and Allied Products Institute welcomes this opportunity to express its views regarding the financing of the social security system. The Institute's membership is vitally concerned with the issues and believes a thorough review of the problems brought about by the 1977 amendments to be of critical national importance.

Before proceeding to our specific suggestions, two general observations are in order. First, American business and individual taxpayers are being "piecemealed to death" by the Administration's tax programs. The massive tax increase enacted in the recent social security legislation, the tax aspects of the energy

program proposed but not yet passed by Congress, tax provisions recommended currently by the President in his message to Congress, the significant "tax reforms" included in the 1976 Tax Reform Act and their implementation which is not yet complete, and tightened administrative rules and procedures of the Internal Revenue Service, which seem to represent an ongoing process, all must be examined together in order to develop intelligent and constructive tax recommendations and action. This overall approach has been followed only to a minimum degree, and the country will suffer unless a reconciliation of the various actions or recommendations is brought about.

A corollary to the proposition just stated is in order. The Administration launched what became the Social Security Financing Amendments of 1977, the Congress modified and enlarged upon the recommendations of the Administration, and it appears that the Administration entered no serious dissent during the process of congressional action. Finally, the President signed the amendments into law and indicated that income tax reductions as a part of the proposed Administration tax package would offset the increased taxes created by the social security amendments. This is an optimistic view, to say the least.

All of this was done in a significant degree of haste and in almost a "crisis" atmosphere. Then the public reacted in a strongly critical manner. Now the Secretary of the Treasury comes before the Subcommittee on Social Security of the Senate Committee on Finance and argues for avoidance of haste in further action on social security, having in mind that there was strong sentiment building in the Congress for a rollback or deferment of certain social security tax increases embodied in the 1977 amendments. With due respect, this sequence of events does not bring credibility to the Administration's position.

In addition, as implied in the discussion above of the piecemeal technique—which simply can't work—the executive branch, and more particularly the Congress, are now confronting the situation where the relationship and interaction between the social security amendments which are tax in nature, the proposed tax reductions in the President's tax package, and the effect of certain tax reform provisions in that tax package will create confusion and counterproductive result.

In terms of social security itself, this Subcommittee has already heard testimony pointing out that the 1977 amendments will:

1. Exact tax increases that may total as much as \$227 billion in the next 10 years—reputedly the largest tax enactment in the history of the United States.
2. Possibly push Congress to cut personal and corporate income taxes to offset the dampening effects of the social security tax increases on the economy.
3. Aggravate inflation at a time when prices are already increasing at far too rapid a pace.

As to the last point, the inflationary results of the social security tax, particularly the employer portion of the tax, was discussed at some length by Barry Bosworth, Director of the Council on Wage and Price Stability, when he appeared on April 6, 1978 before this Subcommittee. An excerpt from his testimony follows:

The employer portion of the tax, however, is quite different. It increases employment costs and the marginal cost of production is precisely the same fashion as a general tax increase. It will be largely reflected in higher prices since consumers cannot shift their purchases toward goods whose costs of production are not affected by such a general tax. It will, of course, affect the composition of consumer purchases as the price increases will vary with the importance of labor costs in total production costs for individual products.

If the employer tax were not treated like any other employment cost and passed forward in higher prices, it would be borne by the employer himself. But, this would imply a secular decline in the profit share of GNP as social security taxes were increased during the postwar period. Such a secular decline has not occurred.

Initially, the burden of higher employer taxes is reflected in higher consumer prices. But, this does not fully measure the burden of these taxes. They do, in addition, raise the price of labor relative to capital. Thus, over the longer term, business firms will seek to reduce their costs by shifting toward methods of production that substitute capital for labor.

Assuming Mr. Bosworth is correct—and we believe he is—the effect of the substantially increased employer social security taxes certainly does not fit into the President's program to curb inflation and increase employment and decrease unemployment.

In short, as already stated, social security cannot be reviewed in a vacuum; it must be interrelated to the other current tax proposals.

Second, social security is and should continue to be an independent program. Proposals to employ, one way or another, significant amounts of general revenues to fund the system do not provide viable solutions—they will only create mounting problems. The reasons are obvious. First, as often has been stated, there are no excess general revenues available. Second, the earned-benefit relationship between the right to benefits and the performance of work is sound. Third, a shift from the earned-benefit approach is likely to result in the adoption of a benefit-need relationship and the creation of a dole system. Fourth, general revenue financing would increase the pressure for adding benefits at a time when it is critically important to reduce as much as is practical all future cost burdens on the system.

#### *The current dilemma*

Turning to our suggestions as to appropriate congressional action, we think it necessary to put the problems in context. Last year's amendments—although hastily constructed in conference—were necessary in part and long-expected. Congress and the public had known for several years that unless action was taken, the system faced trust fund deficits in the 1980s. By the same token, there was general agreement that there was an indexing flaw which was greatly aggravating the projected long-term deficits. The "corrective" action was, we think, appropriate, but Congress in its zeal to "solve" the financing problems both over- and under-reacted.

To explain, to shore up the system's short-range financing, Congress attempted to provide for sufficient revenues to fund expected outlays in both the Old Age and Survivors Insurance (OASI) and the disability insurance (DI) programs over the next 40 years. In our view, this was an over-reaction. What was critical, and still is, was the short-run needs of the system over the next 2-5 years. The "40 year" solution simply postponed the urgent need to study the longer-run issues and come to grips with many fundamental questions.

As to the under-reaction, it is clear that the "decoupling" action taken, while in theory sound, did not come close to being a long-run solution. While Congress recognized the need for a good deal of additional study and in fact created the "National Commission on Social Security," the decoupling approach adopted clearly created a false impression that Congress was passing comprehensive financial solutions for the system over the long haul.

In fact, the 1977 amendments already have returned to haunt Congress because of public awareness that the financing solutions—even of a partial nature—are extremely costly. To us, this suggests that Congress must, while proceeding cautiously, provide a legislative response this year. To postpone any ameliorative action, as appears to be the Administration position, would have the effect of ignoring the realities surrounding the 1977 amendments and have no credibility.

On the other hand, to leap in with newly proposed long-run solutions which would: (1) change the fundamental character of the system, e.g., federal revenue financing and/or alter the principle of tax parity between employer and employee tax contributions, or (2) add further to the long-run costs, e.g., raising the annual earnings level on which taxes and benefits are based, would be unwise as well. What is needed is a clear recognition that the 1977 amendments provided imperfect and overkill solutions and that more time must be spent on a fuller examination of the solutions before Congress allows sweeping changes of the magnitude accomplished in 1977 to be implemented.

#### *Our proposal*

We recommend that Congress pass a bill that will accomplish the following:

1. Eliminate: (a) the "legislated" increases in the taxable wage base above those provided in present law in 1979, 1980 and 1981; and (b) the schedule of social security tax rate increases over present law in 1979, 1981, 1982, 1985, 1986, and 1990. Instead, we suggest that effective January 1, 1979 a tax rate increase of about .5 percent for employers and employees each be substituted as an interim financing solution for the short run.

This approach, even though it will increase social security taxes, has the merit of (a) following the past practice of instituting relatively small increases in the tax rate which—at least to date—have not raised a significant hue and cry and (b) avoiding the commitment to future cost increases brought about by taxable wage base increases over and above the increases triggered by the pre-1977 law. It is also fairer in our view since it helps solve the short-term problem by spreading the tax increase more evenly over all the future beneficiaries of the system

and eliminates the bias of taxing most heavily those individuals and their employers earning at or above the projected wage base levels.

2. Congress should also carefully reexamine the numerous benefit "increases" set forth in the 1977 amendments to determine if any or all can be postponed pending a study of the system.

3. Finally, the bill should commit Congress to a full study of the future for the social security system with a goal in mind that comprehensive legislation should be enacted in the next 2-3 years.

#### *What needs review*

We think Congress must begin its study of social security financing with the recognition that the system's taxes are an important part of the total tax picture so that the full impact of the program will be clear. Specifically, we recommend Congress look carefully at the following:

1. Permitting the system to borrow among its funds to avoid artificial crises.
2. Reducing those welfare aspects of the system which are out of keeping with an earned-benefit approach including the elimination of the progressivity of the current benefit formula, an overhaul of the spouse's benefit provisions, and removal of the minimum benefit.
3. Moving toward establishment of universal coverage, i.e., including all federal, state and local government employees, of the system.
4. Reforming the administration of the preretirement and disability programs.
5. Changing the retirement ages.
6. Providing realistic statutory "integration" rules for private plans, including the adoption of incentives to encourage the growth of the private system.
7. Examining the degree to which, over the years, the social security system has been eroding corporate financial resources otherwise available for the private pension system.

Over and above these agenda items, a study of the legislative history of the 1977 amendments show that Congress has only just begun the process of examining the needs of the social security system. Clearly absent is a total reexamination of the system with a heavy emphasis on the benefit side. While reducing "promised" benefits will not be easy, the payroll tax—as the current public reaction makes obvious—is being stretched beyond its limit and the answer lies in providing only as much of a system as we can afford.

As a guideline in a study for more comprehensive solutions, we think Congress must view the system in the full context of: the system's welfare aspects, its lack of universality, and the total tax burden carried by employees and employers. In short, "band-aid" solutions, even extensive ones such as the 1977 amendments, will not receive public support, and will only worsen the long-run problems.

#### *Concluding comment*

The social security system is now over 40 years old and it is very timely for a thorough congressional review of the role that social security can effectively play in the future. It is both not enough and unnecessary to push through crisis-type proposals.

The passage of the 1977 amendments makes it clear that Congress can no longer routinely pump up the payroll tax to pay for escalating benefits. While Congress must respond to the system's financing needs, it cannot ignore the public's new willingness to make the needed trade-offs between future benefits and taxes.

The Administration's position of doing nothing until next year will compound the failure of the 1977 changes. While politically a do-nothing approach may appease those who supported the Administration's stand, it is the wrong approach from every other point of view.

Certainly that the necessary "reforms" will be accomplished is highly desirable. It will aid in a number of ways. It will enable the government to proceed with stimulating the economy first so that when social security is reviewed for longer-range tax changes, Congress will have a better perspective on the interrelationships. It will lessen the fear of inflation which often leads to further inflation. Further, it will force Congress to undertake a long-needed complete review of the system. While we understand the magnitude and difficulty of such an undertaking, we think it is a must.

Given a redefined goal and policy direction, the program can meet the critical needs of its future beneficiaries at a cost that today's taxpayers will find tolerable.

\* \* \* \* \*

We appreciate this opportunity to express our views and if we can be of assistance to the Subcommittee in its challenging task of reviewing the social security system's current financing, we hope that you will call upon us.

Respectfully,

CHARLES STEWART,  
*President.*

CLANBRO CORP.,  
*Pittsfield, Maine, March 27, 1978.*

Mr. MICHAEL STERN,  
*Staff Director, Committee on Finance, Dirksen Senate Office Building, Washington, D.C.*

DEAR MR. STERN: I would suggest that there are three basic problems with the Social Security Program.

1. Congress has abdicated its fiscal responsibility by granting Social Security benefits to more people than contributed to the system.
2. Congress has granted more benefits to the people who did contribute to the system than they themselves put in.
3. Congress has not required of the Social Security System the same rules it promulgates for private systems:

(1) Fund the current and past service costs currently and not out of future contributions.

(2) Invest the current contributions so that the investments earn money to offset future required contributions.

In short, if Congress would require of the Social Security System what it requires of private pension plans, the SSS would be solvent today.

Moreover, if Congress would demise half of government bureaucracy, the take-home pay of the American worker would be enough to fund his own future Social Security.

Very truly yours,

WILLIAM J. WECK, OPA, *Vice President-Finance.*

BROEKER HENDRICKSON & Co.,  
*Fargo, N. Dak., March 31, 1978.*

In re social security financing.

Mr. MICHAEL STERN,  
*Staff Director, Committee on Finance, Dirksen Senate Office Building, Washington, D.C.*

LADIES AND GENTLEMEN: It is time for Congress to put politics aside and "bite the bullet" on the funding of our Social Security Program.

It is not a satisfactory answer to say past Congresses failed to meet their obligations to the American labor force. We must finally look to the future and start providing the basic funding necessary to make our Social Security Program stable and financially sound.

It is not a satisfactory solution to take one dollar from general revenues for this program. If our general fund had excess revenues, this might be plausible. But to even consider further unbalancing an already dangerously unbalanced general budget by such political nonsense is a serious reason for the world's confidence in the dollar to slip another full notch.

Cordially yours,

CHARLES E. BAILLY, OPA.

AMARILLO, TEX., *April 1, 1978.*

Subject: Hearing on Social Security Financing.

MICHAEL STERN,  
*Staff Director, Committee on Finance, Dirksen Senate Office Building, Washington, D.C.*

A simple resolution of the Financing of Social Security would be to reduce the amount of benefits paid. My suggestion would be to eliminate payments of benefits to anyone with an income of \$20,000.00 per year.

Sincerely,

F. E. COAN.

NATIONAL GRANGE,  
Washington, D.O., March 1, 1978.

Hon. RUSSELL B. LONG,  
Chairman, Finance Committee,  
U.S. Senate, Washington, D.O.

DEAR MR. CHAIRMAN: The National Grange has been concerned about the rapid increase in the social security tax rate and the expanding wage base to be subject to the tax. The system is like a locomotive running out of control—the more benefits piled on the system, the greater the speed of increases in the earnings tax. Being a regressive tax, the contrary should be true—the tax rate and base should be held low, not accelerated.

The delegate body of the National Grange, at its last Annual Session, held in November of 1977, adopted the policy statement on "Social Security" which is attached.

The Grange feels that unless drastic steps are taken this noble experiment in old-age insurance will be jeopardized because of the high cost of financing. The solution lies in stripping from the system those programs that are of a general welfare nature and are unrelated to retirement and financing those programs (even though they are operated through the Social Security system) from general revenues and not from the Social Security survivors fund.

At the present time about 6-million-plus workers are not contributing to Social Security financing. This means that they are not making any contributions to the welfare programs funded out of the Social Security Fund. In financing such programs from general revenues, all will be contributing to caring for the disadvantaged, not just those covered by Social Security.

We would appreciate this letter being made a part of the hearing record. Thank you.

Sincerely,

JOHN W. SCOTT,  
Master.

#### SOCIAL SECURITY

The original intent of the Congress in enacting the Social Security program was not to provide a general pension plan for all citizens, but was to provide a means of supplementing retirement income for employed persons. By requiring persons to contribute to the plan during their working years, the plan was intended to favor persons who earned their living and, most importantly, it was designed to be self-supporting. It was a program wherein each person could reasonably expect to receive, during his or her retirement years, a reasonable return on those contributions he or she so diligently made during his or her working years.

Over the years, the Social Security program has undergone many dramatic and far-ranging changes. Changes have been made which permit benefits under circumstances where insufficient contributions have been made. New benefits have been provided which are, in essence, welfare benefits and thus the Social Security program has shifted its emphasis from a self-supporting supplemental retirement program to a combination of public retirement and welfare benefits. No longer is the plan self-supporting and, in fact, the Social Security trust fund is threatened by bankruptcy.

Today the Social Security program is perceived as a plan which should provide an acceptable level of retirement income as well as provide the welfare-type benefits such as disability and dependents' income, Medicare and Supplemental Security Income (payments to those persons in need at age 65 or over). Employed persons are being asked to make contributions upon the same basis as they were when the Social Security legislation was originally enacted but they are continually asked for greater contributions. Such increased contributions are not sought with any view of providing a fair and greater return for the contributions made but are sought to keep the Social Security trust fund solvent and to permit payment of the increased welfare-type benefits.

It is noted that all welfare programs are funded by revenues out of the general budget. Why then should the public be subjected to the ruse of Social Security which is welfare paid for out of the working person's pocket? Is this fair return for one's contribution made during his/her gainful employment?

The Social Security program is no longer a financially viable program. The original valid objectives of the plan have floundered and it is unrealistic to ad-



dress the problem by urging amendments to the Social Security Act which are mere temporary measures. To do so is of doubtful public benefit. The time has come to address the issue squarely and realistically, now therefore be it

RESOLVED, that the National Grange advocate complete rescission of the Social Security Act and the implementation of a totally new program. Such new program should be a retirement program which will provide supplemental retirement benefits to persons upon the basis of their fair contribution to the plan and which considers past contributions made. It should not include welfare benefits funded by working persons. If it is deemed that such welfare-type benefits are desirable, then they should be handled in the traditional manner, which is to include them as a part of the total welfare program and to fund such social legislation out of revenues in the general budget.

FINANCIAL STRATEGY Co.,  
Denver, Colo. March 31, 1978.

MICHAEL STERN,  
Staff Director, Committee on Finance, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. STERN: I wish to address my total opposition to the Social Security payroll tax increases scheduled to take effect in the coming years. I am raising my voice, and at the polls it will be my vote to my indignation of Congressmen and Presidents that have and continue to support rising social security taxes, and in fact, any tax increase.

I support proposals such as Senator Nelson, which would put a three-year moratorium on presently scheduled Social Security tax increase to permit further study of the entire program.

Sincerely,

THOMAS S. BRISTER.

STATEMENT BY J. B. McCLINTOCK FOR THE AMERICAN COUNCIL OF LIFE INSURANCE

M. Chairman and Members of the Subcommittee: I am J. B. McClintock, vice president of the Nationwide Life Insurance Co. I am here as Chairman of the Committee on Social Security of the American Council of Life Insurance to present the views of the Council on the financing of the Social Security system. The Council has a membership of 472 life insurance companies which, in the aggregate, have 92 percent of the life insurance in force in the United States and hold 99 percent of the reserves for insured pension plans.

At the outset, I would like to point out that the life insurance business has supported the Social Security program ever since the inception of this program in 1935. We firmly believe that Social Security performs a vital and indispensable function in providing a floor of protection for our older population in the areas of retirement and health and for all of our population in the areas of disability and survivor protection. For this reason, it is especially important that the system function properly and be financed adequately.

Our long-standing position has been that Social Security should be financed solely through payroll taxes paid by covered workers and employers. We continue to hold this position. Such payroll taxes enable covered workers and employers to share the cost of the program in a responsible fashion. Payroll taxes have the capability of producing the large sums necessary to finance Social Security. Moreover, payroll taxes have the virtue of being highly visible which maintains the vital link between benefit costs and their financing.

Accordingly, we were pleased when the 1977 Social Security Amendments substantially reduced the impending large deficits in the system by adopting payroll tax increases and other measures, principally decoupling, which reduced its long-run cost. To be sure, we are, and continue to be, disturbed over the large ad hoc increases in the earnings base that were adopted in the 1977 legislation for 1979-81. We opposed these ad hoc increases in the earnings base because they also significantly increased the benefits over the long-run and tended to move the program beyond its true function of providing a basic floor of protection. Nonetheless, we believe that, in adopting the 1977 Amendments, the Congress took a courageous and substantial step toward placing Social Security on a sound financial footing.

For this reason, we are concerned over what appears to be strong sentiment in both Houses of the Congress to reduce the payroll taxes and to use general revenue to finance a substantial part of the costs of the Social Security system. We realize, of course, that higher taxes are never popular and that, at the present time, some taxpayers are reacting adversely to the prospect of increased Social Security taxes in the future, possibly because they are misinformed about the extent of the increases. However, we believe that the infusion of general revenues into Social Security would be undesirable, and we strongly recommend that the Congress continue to rely on payroll taxes to finance Social Security. The substitution of general revenues for payroll tax financing of the Social Security system weakens the link between Social Security benefits and costs. General revenue financing also involves the grave risk of adding to inflationary pressures, by increasing our already huge budgetary deficits, unless accompanied by compensating tax charges in other areas and/or by reduced government spending.

Moreover, we believe that much of the apparent protest on the part of taxpayers to their prospective increases in Social Security taxes under the 1977 legislation is due to misunderstanding about the magnitude of the actual increases in these taxes. The tax increases are considerably smaller than is generally assumed. For example, the \$227 billion tax increase that one frequently hears as representing the additional Social Security taxes imposed by the new law over the next 10 years is, in the aggregate, only about 14 percent higher than the taxes that would have been paid under prior law. After removing the effect of inflation, the real additional cost in terms of today's dollars will be substantially less than these figures indicate.

Moreover, while the Social Security taxes of individuals who currently earn over \$25,000 a year will generally be tripled over the next decade under the new law, these taxes would have been doubled in any event had the old law remained in effect. Further, and quite importantly, the worker with average earnings, or even somewhat above average earnings, will pay only about 6.5 percent more in taxes over the next decade than under previous law. Finally, it is important to remember that the financial cost of the system if general revenues are used will have to be paid by some form of taxes. The statement that there is no such thing as a free lunch, though trite, is true. If Social Security payroll taxes are cut and general revenue financing is used to make up the difference, we will have to raise the necessary revenue by paying larger amounts of other taxes—for example, higher individual income taxes. So, in the final analysis, the use of general revenue to finance Social Security should not be interpreted as a reduction in total tax burdens. Rather, it means that we are turning from payroll taxes, which are the most appropriate and visible means of financing Social Security, to some other source of revenue less suitable for this purpose.

All these considerations support the conclusion that Social Security should continue to be financed through payroll taxes, without injecting any general revenues to support the system.

Despite the persuasive reasons against general revenue financing, if the Congress should decide to reduce present payroll taxes and to finance a part of the Social Security costs through general revenues, we suggest that this be done as follows:

(1) The reduction in Social Security taxes should be achieved mainly by reducing the earnings base. Specifically, the ad hoc increases in the base for 1979-81 adopted under the 1977 legislation should be eliminated and the base should be restored to the levels which would be attained under the law as it was before the 1977 legislation. Because these ad hoc increases have been responsible for the largest portion of the increases in tax burden, this action would provide relief to those individuals whose Social Security taxes are scheduled to be increased most substantially under the 1977 legislation. Moreover, elimination of the ad hoc increases in the earnings base would reduce the costs of the system by slowing down the rapid growth in benefit levels in future years. This would be in accord with the principle that Social Security should provide a basic floor of protection, preserving the freedom of the individual to provide for retirement needs above this floor through personal savings and private plans. The reduction in future earning bases that we suggest places increased emphasis on private savings as contrasted to Social Security, which properly is a transfer program, and it would help to increase capital formation which is so necessary for a dynamic economy and high levels of employment and income.

We believe that these reasons for elimination of the ad hoc increases in the earnings base scheduled by the 1977 legislation and the restoration of the base

to the levels scheduled under the prior law are so strong that this change should be permanent, and ad hoc increases should not be scheduled subsequently.

(2) Should the Congress decide to provide for a rollback in the Social Security tax rate, we urge that such a reduction be modest. The Social Security tax rate should not be reduced below the level scheduled under the law as it existed prior to the 1977 Amendments. However, as Chairman Nelson has suggested, the tax rate scheduled for some years hence should be reduced slightly, and the tax rate for the distant future should be increased slightly, so as to prevent the trust funds from building up to very large heights a decade or so from now. We strongly oppose drastic reduction in the tax rate—for example, a reduction to well under 5 percent, as proposed by a number of bills that have been introduced in both Houses of the Congress—because this would severely impair the integrity of the system.

(3) The loss of revenue resulting from the elimination of the ad hoc increases in the earnings base and a modest reduction in the tax rate described above could be compensated for by allocating a portion of the Hospital Insurance (HI) tax receipts to financing the Old-Age, Survivors and Disability Insurance program (OASDI). Provided that the funds are used in this way, we would not object to the use of general revenues to make up the decrease in HI tax receipts as so allocated.

In making this suggestion, we want to emphasize that we believe that payroll taxes have been and continue to be a highly satisfactory means of financing the HI program. We suggest the infusion of general revenues into HI only if the Congress is determined to use general revenues to finance a reduction in Social Security payroll taxes. We offer this suggestion because we believe that HI benefits, which are not wage related, do not require financing through payroll taxes to the same extent as retirement, survivors, and disability benefits, which are wage-related. There is already some precedent for using general revenues to finance the HI program in that a substantial part of the cost of the supplementary Medical Insurance program (Part B of Medicare) is already financed out of general revenues.

(4) Under no conditions should general revenues be used to finance any part of the OASI or DI programs. Instead, it is highly vital to the proper functioning of these programs that they continue to be financed through payroll taxes. Unlike HI, retirement, survivors, and disability benefits paid under OASDI are wage-related—and properly so. Accordingly, they should continue to be financed by payroll taxes, which are also wage-related according to the amount of covered earnings. This maintains the principle that the individual workers and the employers should contribute directly to the cost of providing retirement, survivors, and disability benefits in a way which is highly visible, and which directly links benefits and costs.

We are in agreement with the views expressed by Chairman Nelson in his statement before the Senate Budget Committee on March 20 in regard to the need for further study of the Social Security system. There is need for further study as to the best way to obtain universal coverage by including Federal, State, and local employees under Social Security. Thorough examination must be given to the replacement rates provided under Social Security, including such aspects as what should be the proper level of benefits, and how the cost of the system can be kept under control in view of the apparent resistance now being encountered in financing the system through higher taxes. The proper relationship between private pension plans and Social Security benefits should also be studied, including appropriate means of providing greater incentives to enhance economic security through private savings and pension programs. It is imperative to give prompt attention to substantial reform of the Disability Insurance program, which is now out of control, as costs continue to soar. The decoupling legislation that was enacted last year has been helpful in this regard. Further action is urgently needed to place reasonable limits on disability benefits so as to preserve adequate work incentives and to improve the administration of the DI program.

We note that provision has already been made for the study of many of these issues through the appointment of an Advisory Council on Social Security and by the steps which have been taken to establish the National Commission on Social Security and the President's Retirement Commission. It is gratifying to know that the Department of Health, Education, and Welfare is studying ways to cover government employees under Social Security and issues relating to the treatment of women and dependents under Social Security. We look forward to the findings of these important studies.

Finally, we strongly urge that the Congress, in its consideration of Social Security issues, should give adequate recognition to the need to strengthen private provision for retirement needs. As we have indicated, the Social Security system performs a vital and indispensable function in providing an economic floor of protection. The events in recent months have illustrated the potential problems that can arise if too great a burden is placed upon Social Security. Proper encouragement of individuals to make provision for part of their retirement needs through their own personal savings and through private pension plans would decrease the financial strain on the Social Security system. This objective would be furthered by granting tax deductions to employees for their own contributions to employer-sponsored pension plans and by increasing the maximum tax deductions granted for income set aside in Keogh plans (H.R. 10 plans) and Individual Retirement Accounts.

I appreciate this opportunity to present the views of the American Council of Life Insurance to this distinguished Subcommittee.

---

STATEMENT OF THE HEALTH INSURANCE ASSOCIATION OF AMERICA PRESENTED BY  
GERALD S. PARKER

My name is Gerald S. Parker. I am a vice president of The Guardian Life Insurance Company of America. We are a life insurance company located at 201 Park Avenue South, New York, N.Y. I am appearing here today on behalf of the Health Insurance Association of America, an association of approximately 310 insurance companies, whose members write approximately 93 percent of all of the health insurance by commercial insurance companies in the United States.

We read the papers. We think we appreciate the kinds of pressure you are under to do something about the high cost of Social Security while at the same time being fiscally responsible. We know too well that there are no easy answers.

But the companies in our association have an enormous amount of hands-on experience in one aspect of the Social Security cost problem—that of disability benefits. We'd like to make that experience available to help you solve at least some of the problems.

Before going to the details of those problems, however, we must state that the HIAA does not support the use of general revenues for the funding of any part of the Social Security OASDHI program, either temporarily or permanently. We feel that such a step would be too easily lead to irresistible pressures for further use of general revenues to solve the inevitable future financial crisis and would at the same time mask the urgency of vitally needed, but easily ignored, hard decisions involving benefit formulas, universal coverage, disability claims administration, and retirement age levels.

In addition, if the general revenues are taken from income taxes, they will be extracted from the same people whose payroll taxes would be reduced.

On March 22, the Washington Post reported Administration figures clearly showing that more than three fourths of the additional Social Security taxes scheduled to be collected in the next two years under the 1977 amendments will arise from the increase in the maximum wage base from \$17,700 to \$25,900. The average wage earner would pay only \$623 more in Social Security taxes cumulatively over the next ten years than under the old law, but each of the 13 percent of all workers who earn at or above the maximum wage base will pay about \$6,257 more during the same 10-year period.

This is the same group that will be hit hardest by an increase in the income tax if general revenues are to be the source of the financing rather than the payroll tax. So you would simply be giving money back to them to put in their right hand pockets while extracting it from their left hand pockets.

Of course one can say that the general revenues don't all come from income taxes. But if the money to finance the benefits in the next few years is taken from general revenues without an increase in taxes, then obviously it must come out of borrowing, which is simply the creation of additional debt. That cannot help but add fuel to the already extremely dangerous inflationary pressures arising out of the enormous deficits we are running, even without this additional demand. Of course, additional inflation would mean additional benefits, and the merry-go-round would go on.

While we oppose the use of general revenues to help with the funding of the Social Security programs, there are, some other actions that could increase the available funding by more than they would add to the benefit costs. Among these is the requirement of universal coverage. We believe that Federal employees should be included in Social Security. We propose that Social Security be integrated with the Federal civil service pension plan and that Federal employees pay regular Social Security taxes, but that these amounts be deducted from their present contributions to the civil employees' pension plan. Thus, the deductions from civil employees' pay would not be increased, and their pensions on retirement from the civil service would not be decreased, but they would not be able to retire from the civil service and then acquire substantial additional Social Security benefits by work in jobs covered under Social Security for relatively short periods of time. On final retirement, a civil service employee would receive an amount equal to the civil service pension he would now get, composed partly of civil service pension and partly of Social Security benefits. Should his employment pattern be such that his Social Security benefit would exceed his civil service pension on retirement, then that is the sum he would receive on final retirement.

As to State and municipal employees, we should prefer that local governments not have the option of electing out of Social Security. But if there are constitutional problems with this change, we propose that the Congress enact incentives to the cities and States to include their employees and disincentives not to do so. In particular, we point out that it is extremely wasteful for State and municipal plans to provide benefits in addition to and unintegrated with Social Security benefits.

But funding is only part of the problem. The other side of it is the benefit formula. In the area of disability benefits, we think we can help a great deal there.

Demographic studies indicate that there will be only two active workers for each retired worker during the early part of the 21st century. If replacement ratios for retired persons are then running to something like 42 percent of the wages of average earners immediately prior to retirement, even counting only the primary insurance amount and not allowing for the spouses' benefits, it doesn't take very much arithmetic to conclude that it will take something like 21 percent of the taxable earnings of each employed worker to pay the retirement benefits of each retiree. Add the spouses' benefits and the benefits to the disabled, along with Medicare and overhead, and it is not difficult to see the combined Social Security tax running somewhere between 30 percent and 40 percent of taxable wages.

At some point, the presently scheduled level of benefits is going to have to be reduced. There isn't going to be any other option. There will never be enough money for all the benefits now projected.

We have studied this problem and tried to approach it on a basis that is both sound from a social and economic standpoint and realistic from a political standpoint. We believe there are excesses in the benefit pattern now. We believe many of these excesses are not generally recognized. We believe the public would not approve them if they knew of them, and certainly would not be willing to pay additional taxes to maintain them. We should like to talk about these excesses.

#### THE REPLACEMENT RATIO IS THE PROBLEM

We define the replacement ratio as the ratio of the initial monthly Social Security benefit available to a disabled (or retired) beneficiary and his dependents to the amount of his average monthly earnings in the year preceding his disability (or retirement).

As underwriters experienced in the writing of disability income insurance on a group and individual basis, we live every day with the close relationship between the ratio of disability benefits to previous earnings. The replacement ratio has a dramatic effect on the incidence and duration of disabilities among persons insured. The table which appears immediately below this portion of my testimony illustrates this:<sup>1</sup>

Data by the Equitable Life Insurance Society of the United States as reported in Employee Benefit Plan Review.

<sup>1</sup> Source: "Profit Problems in Noncancellable Disability Income Insurance," Conning & Company, 41 Lewis Street, Hartford, Conn.

Ratio of gross group disability benefits  
to gross pay before disability :

Ratio of actual  
claims to expected  
claims (percent)

Under 50 percent.....	56
50 percent.....	71
Over 50 to 60 percent.....	88
Over 60 to 70 percent.....	108
Over 70 percent.....	187

On the left, you see the ratio of the gross disability benefits to the gross pay of the employees prior to the beginning of disability. On the right, you see the ratio of actual claims experienced in those expected. "Expected claims" means the claim levels for which provision was made in the premiums. The dramatic increase in the ratio of the actual to the expected demonstrates how the replacement ratio affects claim costs. Notice that the actual claims exceeded expected when the ratio of benefits to prior earnings reached about 65 percent.

It may surprise you that benefits exceeding a replacement ratio as low as 65 percent seem to be enough to discourage recovery. Keep in mind that Social Security benefits are not taxable as income, and when this study was done, employer—furnished disability benefits were also tax exempt up to \$100 a week under the "sick pay exclusion."

There are other data available to demonstrate results consistent with those, and they can be made available to your staff at their convenience.

We believe that much of the unexpected increase in claim costs for disability benefits under the Social Security Act in recent years has arisen, not from unemployment, but from an excessive replacement ratio. Beginning next year, the decoupling contained in the 1977 amendments will go a long way toward reducing the excessive replacement ratios contained under the prior law, as is demonstrated by exhibit I, which is attached to this statement. The exhibit shows that the primary insurance amount under the old law provided a replacement ratio of about 81½ percent to low earners, about 60 percent to average earners, and about 42½ percent to high earners. This reduces under de-coupling to about 60 percent for low earners, 43 percent for average earners, and 34 percent or less to high earners.

This is very constructive as far as it goes. But all the tables we have seen until now showing how effective the 1977 amendments and the de-coupling were have shown only the ratio of the primary insurance amount to prior average earnings.

The primary insurance amount is what a beneficiary without eligible dependents receives. But if he has a dependent spouse and a child under 18 (or under 22 and a full time student), the maximum family benefit is payable. When you look at the maximum family benefit, as shown in exhibit I, you have a completely different story.

Here, the replacement ratio will decrease with de-coupling, but especially for low and average earners, it will remain above the amount which will motivate recovery, rehabilitation, and return to work. Even for maximum earners, it remains high enough so that it seriously impacts any market for private supplementation.

We think the Congress could ask itself some questions about the reason for the dependents' benefits and for their amounts. This is not to suggest that we are insensitive to the needs of widows and orphans. Far from it. Most of our member companies are life insurance companies largely devoted to filling those needs. But should the total family of a disabled person receive more than the survivors of a dead one? And if they should, how much more?

The amount the disabled beneficiary earned before his disability was not affected by the number of his dependents. Indeed, it would probably be illegal for an employer to attempt such discrimination. The family benefits were provided originally for the spouses of retired workers, and in those cases the benefit total would not reach the maximum family benefit or affect disability payments. They were provided for the survivors of deceased workers, who, with young children, often had little other income or opportunity to earn it. Obviously, no one could oppose providing family benefits for the dependents of such deceased workers. It seems quite proper that the level of such benefits should approach the percentages of income prior to the death of the wage earner provided in the current law.

But this is quite a different thing from providing the same level of benefits

for the family of a disabled worker, especially when it may mean his spendable income is as large as, or even larger than it was before he became disabled.

While eliminating or reducing the dependents' benefits for the dependents of disabled workers is one way the replacement ratio could be kept within reason, it is not the only way. There are a number of approaches that could be explored.

One approach is evident from an examination of the formula for determining the maximum family benefit. As of 1979, the maximum family benefit will be 150 percent of the first \$230 per month of primary insurance amount, and 272 percent of the next \$102 per month. It will go down to 134 percent of the next \$101, then back up to 175 percent of the excess over \$433. It is the bulge in the second break point that creates a substantial part of the problem in the low to average earning brackets. If you will look at the next to last column in Exhibit I, you will see that the maximum family benefit will be 150 percent of the Primary Insurance Amount for the low earner, down from 173.5 percent this year. For the average earner, it will increase next year from 175 percent to about 180 percent. For the high earner, it will remain about 175 percent. One alternative approach might be to use a simple figure such as 150 percent all the way.

Even just the elimination of the second break point would help a great deal. For a worker whose PIA is exactly \$332 per month in 1979, the maximum family benefit will be 188 percent of the primary insurance amount! And above only \$374.50 per month of Average Indexed Monthly Earnings, the 272 percent factor applies to the next \$102 per month of PIA! That's not a very high AIME.

Another approach to preventing excessive replacement ratios would be to limit the total disability income benefit for a family to a given percentage of AIME, such as 50 percent. If it is felt that this would be too hard on very low income wage earners, then a sliding, or graded percentage cap could be used, tied to the break points so that the cap would be progressive, more or less as the Primary Insurance Amount now is. Because relatively low earners now constitute the largest group of beneficiaries, a suitable cap on the replacement ratio for them would have the greatest effect in reducing the cost of the benefit, but we recognize that this must be balanced with social principles. Still, we feel that it is very important to recognize that these disability benefits are not subject to income tax and to leave some incentive for recovery and rehabilitation. We are convinced that replacement ratios that exceed about 75 percent of former gross earnings are excessive, even the lowest levels. If a graded cap were to be used, we would suggest that it begin at 75 percent for the lowest income earners and grade down to perhaps 35 percent for the highest levels of income. And it should integrate with workers' compensation.

Precedent for still another approach to the problem can be found in the reduction of retirement benefits where retirement occurs prior to age 65. If retirement occurs at age 62, then the PIA is 80 percent of that applicable to retirement at age 65 with the same AIME. It would appear that support could be developed for using the same 80 percent to establish PIA for total disability. Particularly if combined with a modification of the formula for determining the maximum family benefit, this approach could be very helpful in reducing excessive replacement ratios.

There are also several technical changes that could have minor useful effects in reducing excessive replacement ratios. Among them are the following:

a. The percentage of AIME payable to beneficiaries in the third breakpoint could be cut from 15 percent to 10 percent of AIME, thus making the benefit pattern somewhat more progressive and reducing the cost by reducing benefits for the higher paid workers. This would lessen the increase in costs that arises from the very sharp increase in the wage base enacted last year. Of course a reduction in the wage base would also be very helpful in this regard.

b. The rate of change in the breakpoints in the present formula could be cut below the presently planned rate. As the law now stands, the breakpoints would be increased in proportion to the ratio of average wages for the year second preceding the year of determination to the average wages of 1977. Less than 100 percent of the quotient of that calculation would slow the increase in benefits in the future in a gradual way that could be assimilated by beneficiaries. Another way to do it would be to increase the breakpoints at the rate of increase in the Consumer Price Index rather than the rate of increase in average wages, so long as wages increase at a more rapid rate than the Consumer Price Index. To be doubly safe in this area, it could be provided that the breakpoints would increase at the rate of the increase in wages or the increase in the Consumer Price Index, whichever is the lesser.

c. It has been suggested limiting the amount of disability income benefit to an amount not greater than the maximum retirement benefit then available. The enactment of the de-coupling provisions removed most of the need for this approach, but disability benefits for young beneficiaries are still higher than those for retirees in the higher earnings brackets. Adoption of this proposal<sup>1</sup> could produce this equity and save some benefits that could otherwise be payable to young, high earners.

d. Another action that could somewhat reduce the benefit levels would be the elimination of the 5-year drop-out provisions under which the five lowest earnings years are eliminated in calculating AIME. As this might affect chiefly those in lowest earnings brackets, more research needs to be done on it.

#### ADMINISTRATION

Finally, we come to the matter of administration. The Department of Health Education and Welfare is due to report recommendations on disability reform in June, and we urge that that report be given prompt consideration by the Congress. We oppose the 3-year moratorium for study of Social Security benefits and problems, because we believe many reforms are needed now and can be achieved in the near future. If they are, real future savings will result. We believe that action should be taken to correct the faults in the disability side of the program at the earliest possible moment, and we hope it will be done by this Congress. We urge that any study period of other improvements and changes not extend beyond two years at which time the reports from the President's Advisory Council, the National Commission, and presumably studies by the staffs of the Senate Finance Committee and the House Ways and Means Committee will have been completed.

We have reviewed the proposed rules published by the Social Security Administration for administering disability claims in which vocational factors must be considered, as published in the Federal Register, Volume 43, Number 45, on March 7. While it is difficult to know how effective these rules would be if implemented, it is our view that almost anything that will lead to greater uniformity of interpretations and administration of claims will give better results than the relative confusion which exists today.

In addition, we urge the most serious study of the California AMCE Pilot Program that began last year in that state, the requirement of personal contact between the applicant and the reviewer, a visit if necessary to the applicant, and automatic review dates after prescribed periods of disability so that claimants, once approved, cannot remain on benefit indefinitely without being checked to determine whether they are still disabled.

The subject of claim administration is an extremely complex one. The picture one tends to hear about when one is thinking of and discussing totally disabled beneficiaries is the 55-year-old unskilled laborer who can no longer do heavy work and has neither the education nor the ability to be retrained for anything much else. And of course there are many cases of this kind. Obviously, no one expects that such person will be returned to a productive economic life. But there are some other kinds of claimants that you don't hear of. Let me tell you about some of them.

I know of a disabled former New York City sanitation worker. He was earning about \$18,000 per year when his back was hurt on the job. This was 3 or 4 years ago. Between his New York City benefit for on the job injury and his Social Security disability benefit, his tax free income is now about \$24,000 per year. Do you think he has any motive to return to work?

I believe that the newspapers in Washington have had several stories during the past few months of abuse of disability plans by public employees. Some of you may have seen the 60 Minutes program of Mike Wallace and his Associates exposing the way in which air traffic controllers have been able to be placed on disability because of the mental or emotional strain of their jobs. Often, they are able to conduct profitable businesses on the side after retiring on disability from their Government work.

Some of you have seen the news story in the New York papers recently in which it was discovered that a man who had been retired as a New York City fireman for disability had won a foot race to the top of the Empire State Building. In

<sup>1</sup> H.R. 8076.



Pennsylvania, we understand that there is a strange illness problem among the police approaching retirement. It is known as "trigger finger stiffness". It is coincidental, perhaps, that the disability benefit might exceed the retirement benefit. Or is it?

Nor are these situations confined to the public sector, although they are particularly difficult to deal with there as there is not even any provision in the Social Security Act for integrating its benefits with many public on the job injury and sickness programs as there is for integration with private workers' compensation programs. But we have, among our companies, persons on disability from such ailments as "responsibility phobias" in which the disabled person claims that any attempt on his part to make a decision or do anything involving responsibility so upsets him that he is unable to function. Any insurance company claim man can give you horror stories by the dozen that illustrate the difficulty of dealing with what seem to be subjective disabilities.

If a person alleges that his back hurts, it's almost impossible to prove that it does not. If he alleges that he has chest pain, no one in the world can prove that he has not have angina pectoris. If he alleges that attempts to work make him unable to sleep, or unable to digest his meals, or too nervous to cope with every day life, it is next to impossible to prove that he is not disabled. Only if we can prove that he is actually working do we have a chance to do so.

That is why the replacement ratio concept is so absolutely vital to the control of the costs of disability coverages. I would remind you that the 1977 Trustees report assumes that disability incidence rates will continue increasing, reaching an ultimate level in 1986 that is one third greater than the estimated 1977 level. If you can even prevent that from happening, you will make enormous savings in the future tax requirements. If you can reduce it somewhat, the benefits to the tax payer will even be greater. And controls on the replacement ratios are what will give you the best hope of achieving that.

There are a number of simple concepts that ought to be included in any study attempting to rationalize and improve claim administration. Time and space do not permit detailed discussion of them today, but I should like to list some of them with the thought that we would review them in greater detail with your staff later this year. We submit for your consideration, the following additional concepts to be included in any administrative and legislative attack on claim management.

1. Any claim management plan should recognize the concept of lengthy, but temporary disabilities from which ultimate recovery is expected or should be expected because of the age, education, and probable trainability of the claimant.

2. No claimant should be placed on benefit status unless there is a plan for automatic review after a given period of time of any disability not clearly terminal.

3. The law and regulations that make the obligation or opportunity for rehabilitation appear to be more a threat than an opportunity to a disabled person, ought to be removed.

4. Some rules for evaluating medical corroboration of subjective pain should be required.

5. The intensity of Federal review of decisions ought to be greatly increased from the present 5 percent sample. We believe this could result in the termination of benefits of a great many people who are not really disabled and could save very substantial sums.

Our association has committees studying the question of claim administration in considerable depth, and we hope to be able to provide further recommendation to the Congress in this area during the next few months.

We appreciate the opportunity to be heard today. Thank you.

CHART I.—1977 SOCIAL SECURITY LAW BENEFIT CHANCES, AGE 29 DISABILITY

Year of disability	Annual earnings in prior year	Primary insurance amount	Primary insurance amount replacement ratio (percent)	Maximum family benefit	Maximum family benefit as percent of primary insurance amount	Maximum family benefit replacement ratio (percent)
<b>Low earner:</b>						
1978	\$3,985	\$270.70	81.6	\$455.40	168.2	137.1
1979	4,308	215.00	59.9	322.50	150.0	89.8
1985	6,273	318.00	60.8	477.00	150.0	91.2
<b>Average earner:</b>						
1978	10,001	494.00	59.3	864.30	175.0	103.8
1979	10,811	382.00	42.4	689.50	180.5	76.5
1985	15,742	564.00	43.0	1,020.30	180.9	77.8
<b>\$17,700 earner in 1978:</b>						
1978	16,500	622.30	45.3	1,089.90	175.0	79.2
1979	17,700	503.00	34.1	880.30	175.0	59.7
1985	25,774	743.00	34.6	1,300.30	175.0	60.5
<b>Maximum earner:</b>						
1978	16,500	622.30	45.3	1,089.90	175.0	79.2
1979	17,700	503.00	34.1	880.30	175.0	59.7
1985	36,000	867.00	28.9	1,517.30	175.0	50.6

## APPENDIX B

## FINANCING OF THE SOCIAL SECURITY PROGRAMS

95th Congress }  
2d Session }

COMMITTEE PRINT

Staff Data and Materials on

# Financing of the Social Security Programs

COMMITTEE ON FINANCE  
UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

Data and Materials Prepared by the Staff of the  
Committee on Finance for the Use of the

## SUBCOMMITTEE ON SOCIAL SECURITY

GAYLORD NELSON, *Chairman*



MARCH 30, 1978

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1978

25-066

## COMMITTEE ON FINANCE

RUSSELL B. LONO, Louisiana, *Chairman*

HERMAN E. TALMADGE, Georgia	CARL T. CURTIS, Nebraska
ABRAHAM RIBICOFF, Connecticut	CLIFFORD P. HANSEN, Wyoming
HARRY F. BYRD, Jr., Virginia	ROBERT DOLE, Kansas
GAYLORD NELSON, Wisconsin	BOB PACKWOOD, Oregon
MIKE GRAVEL, Alaska	WILLIAM V. ROTH, Jr., Delaware
LLOYD BENTSEN, Texas	PAUL LAXALT, Nevada
WILLIAM D. HATHAWAY, Maine	JOHN C. DANFORTH, Missouri
FLOYD K. HASKELL, Colorado	
SPARK M. MATSUNAGA, Hawaii	
DANIEL PATRICK MOYNIHAN, New York	

MICHAEL STERN, *Staff Director*GEORGE W. PRITTS, Jr., *Minority Counsel*

## SUBCOMMITTEE ON SOCIAL SECURITY

GAYLORD NELSON, Wisconsin, *Chairman*

ABRAHAM RIBICOFF, Connecticut	PAUL LAXALT, Nevada
FLOYD K. HASKELL, Colorado	JOHN C. DANFORTH, Missouri

(11)

## CONTENTS

	Page
Financing of the social security programs.....	1
Alternative financing proposals.....	14
Administration tax package.....	15
S. 2459 (Senator Eagleton).....	18
S. 2501 (Senator Hathaway and others).....	18
S. 2503 (Senator Nelson and others).....	21
Alternative proposal (Senator Nelson).....	24
S. 2607 (Senator Haskell).....	26
S. 2741 (Senator Domenici).....	26
S. 2746 (Senator Hatfield of Montana).....	27
S. 2808 (Senator Dole).....	27
S. 2812 (Senator Danforth).....	27

## LIST OF TABLES

Table 1. Tax rates for the social security trust funds.....	2
Table 2. Annual earnings subject to social security tax.....	3
Table 3. Annual tax at selected earnings levels.....	3
Table 4. Estimated operations of the OASI and DI trust funds, combined, during calendar years 1977-87 under present and prior law.....	4
Table 5. Estimated operations of the OASI trust fund during calendar years 1977-87 under present and prior law.....	5
Table 6. Estimated operations of the DI trust fund during calendar years 1977-87 under present and prior law.....	6
Table 7. Estimated operations of the III trust fund, during calendar years 1977-87 under present and prior law.....	7
Table 8. Calendar years 1978-83: Additional contribution income resulting from 1977 amendments.....	8
Table 9. Fiscal years 1978-83: Additional contribution income resulting from 1977 amendments.....	9
Table 10. Estimated amount of changes in OASDI benefit payments under 1977 amendments, calendar years 1978-83.....	10
Table 11. Changes in the actuarial balance of the OASDI system over the long-range period (1977-2051) under the Social Security Act as amended through Public Law 95-216.....	12
Table 12. Comparison of the estimated expenditures with the scheduled tax rates for the old-age, survivors, and disability insurance system as amended through Public Law 95-216, calendar years 1977-2055.....	13
Table 13. Long-range estimates of the OASDI program under 3 sets of actuarial assumptions.....	14
Table 14. Social security tax liability under present law compared with prior law and with 1977 tax levels.....	15
Table 15. 1978 combined income tax and social security (FICA) tax burdens: 4 person, 1-earner families.....	16
Table 16. 1979 combined income tax and social security (FICA) tax burdens: 4-person, 1-earner families.....	16
Table 17. 1978 combined income tax and social security (FICA) tax burdens: 4 person, 2-earner families.....	17
Table 18. 1979 combined income tax and social security (FICA) tax burdens: 4-person, 2-earner families.....	17
Table 19. Social security tax rates under present law and under S. 2501, employee and employer, each.....	19
Table 20. Social security tax base under present law and under S. 2501.....	20
Table 21. Reduction in OASDI and HI tax contribution income and amount of general fund contributions under S. 2501, calendar years 1979-87 and fiscal years 1979-83.....	20

## IV

	Page
Table 22. Social security tax rates under current law and under S. 2503.....	22
Table 23. Estimated operations of the OASI trust fund under present law and under the program as modified by S. 2503, calendar years 1977-87...	23
Table 24. Reduction in OASDI and HI tax contribution income and amount of general fund contributions under S. 2503, calendar years 1979-87 and fiscal years 1979-83.....	24
Table 25. Social security tax rates under present and prior law and Nelson alternative.....	25
Table 26. Social security tax base under present and prior law and Nelson alternative.....	25
Table 27. Estimated operations of the OASI and DI trust funds, com- bined, under present law and under the programs as modified by Nelson alternative proposal, calendar years 1977-81.....	26
Table 28. Estimated operations of the HI trust fund under present law and under the program as modified by a Nelson alternative proposal, calendar years 1977-81.....	26

## FINANCING OF THE SOCIAL SECURITY PROGRAMS

The social security payroll tax generates funds to pay the benefits and administrative costs of three separate programs. These are old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance or part A of medicare (HI). Although the payroll deduction for social security taxes is shown as a single amount on the employee's pay stub, a specific portion of that tax is earmarked for each of these three programs. The revenues generated for each program are maintained in a separate trust fund and can be used only for that program.

Over the past few years, the funding of these social security programs became increasingly inadequate as a result of the economic situation coupled with unanticipated growth in program costs. In the 1977 report of the board of trustees of the OASDI trust funds, the disability insurance fund was projected to be exhausted by the end of 1979 and the combined OASI and DI funds were expected to be exhausted by 1982. On the basis of the assumptions used for the 1977 report of the trustees, it was estimated that the HI trust fund would be exhausted in 1987. Each of these programs also faced continuing deficits on into the future.

As a result of the deteriorating financial situation of the social security cash benefit programs, legislation was enacted in 1977 to address the problems. The legislation revised certain benefit provisions in a manner which resulted in some reduction in outgo, and also provided for additional income by increasing both the social security tax rates and the amount of annual earnings subject to social security taxation.

The tables which follow show the situation which existed prior to the enactment of the 1977 amendments and the changes which resulted from those amendments.

(1)

TABLE 1.—TAX RATES FOR THE SOCIAL SECURITY TRUST FUNDS

[In percent]

Calendar year	Prior law					Present law (1977 amendments)				
	OASI <sup>1</sup>	DI <sup>2</sup>	OASDI	HI <sup>3</sup>	Total	OASI <sup>1</sup>	DI <sup>2</sup>	OASDI	HI <sup>3</sup>	Total
<b>EMPLOYERS AND EMPLOYEES, EACH</b>										
1977.....	4.375	0.575	4.95	0.90	5.85	4.375	0.575	4.95	0.90	5.85
1978.....	4.350	.600	4.95	1.10	6.05	4.275	.775	5.05	1.00	6.05
1979-80.....	4.350	.600	4.95	1.10	6.05	4.330	.750	5.08	1.05	6.13
1981.....	4.300	.650	4.95	1.35	6.30	4.525	.825	5.35	1.30	6.65
1982-84.....	4.300	.650	4.95	1.35	6.30	4.575	.825	5.40	1.30	6.70
1985.....	4.300	.650	4.95	1.35	6.30	4.750	.950	5.70	1.35	7.05
1986-89.....	4.250	.700	4.95	1.50	6.45	4.750	.950	5.70	1.45	7.15
1990-2010.....	4.250	.700	4.95	1.50	6.45	5.100	1.100	6.20	1.45	7.65
2011 and later.....	5.100	.850	5.95	1.50	7.45	5.100	1.100	6.20	1.45	7.65
<b>SELF-EMPLOYED PERSONS</b>										
1977.....	6.185	0.815	7.0	0.90	7.9	6.1850	0.8150	7.0	0.90	7.9
1978.....	6.150	.850	7.0	1.10	8.1	6.0100	1.0900	7.1	1.00	8.1
1979-80.....	6.150	.850	7.0	1.10	8.1	6.0100	1.0400	7.05	1.05	8.1
1981.....	6.080	.920	7.0	1.35	8.35	6.7625	1.2375	8.00	1.30	9.3
1982-84.....	6.080	.920	7.0	1.35	8.35	6.8125	1.2375	8.05	1.30	9.35
1985.....	6.080	.920	7.0	1.35	8.35	7.1250	1.4250	8.55	1.35	9.90
1986-89.....	6.010	.990	7.0	1.5	8.5	7.1250	1.4250	8.55	1.45	10.00
1990-2010.....	6.010	.990	7.0	1.5	8.5	7.6500	1.6500	9.30	1.45	10.75
2011 and later.....	6.000	1.000	7.0	1.5	8.5	7.6500	1.6500	9.30	1.45	10.75

<sup>1</sup> Old-age and survivors insurance.  
<sup>2</sup> Disability insurance.

<sup>3</sup> Hospital insurance (part A of medicare).

2

334



TABLE 2.—ANNUAL EARNINGS SUBJECT TO  
SOCIAL SECURITY TAX

Year	Under prior law	Present law (1977 amendments)
1977.....	\$16,500	\$16,500
1978.....	17,700	17,700
1979.....	<sup>1</sup> 18,900	22,900
1980.....	<sup>1</sup> 20,400	25,900
1981.....	<sup>1</sup> 21,900	29,700
1982.....	<sup>1</sup> 23,400	<sup>1</sup> 31,800
1983.....	<sup>1</sup> 24,900	<sup>1</sup> 33,900
1984.....	<sup>1</sup> 26,400	<sup>1</sup> 36,000
1985.....	<sup>1</sup> 27,900	<sup>1</sup> 38,100
1986.....	<sup>1</sup> 29,400	<sup>1</sup> 40,200
1987.....	<sup>1</sup> 31,200	<sup>1</sup> 42,600

<sup>1</sup> Estimated.

TABLE 3.—ANNUAL TAX AT SELECTED EARNINGS LEVELS  
[Employer/employee each]

Year	Prior law			Present law (1977 amendments)		
	\$10,000	\$15,000	Maximum tax	\$10,000	\$15,000	Maximum tax
1977.....	\$585	\$878	\$965	\$585	\$878	\$965
1978.....	605	908	1,071	605	908	1,071
1979.....	605	908	<sup>1</sup> 1,143	613	920	1,404
1980.....	605	908	<sup>1</sup> 1,234	613	920	1,588
1981.....	630	945	<sup>1</sup> 1,380	665	998	1,975
1982.....	630	945	<sup>1</sup> 1,474	670	1,005	<sup>1</sup> 2,131

<sup>1</sup> Estimated.

TABLE 4.—ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS, COMBINED, DURING CALENDAR YEARS 1977-87 UNDER PRESENT AND PRIOR LAW

[Dollar amounts in billions]

Calendar year:	Income		Outgo		Net increase in funds		Funds at end of year		Funds at beginning of year as a percentage of outgo during year	
	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)
	1977.....	\$82.1	\$82.1	\$87.6	\$87.6	-\$5.5	-\$5.5	\$35.6	\$35.6	47
1978.....	90.7	92.4	97.6	97.2	-7.0	-4.8	28.6	30.8	36	37
1979 <sup>1</sup> .....	99.6	106.5	107.4	106.9	-7.8	-4	20.8	30.4	27	29
1980 <sup>1</sup> .....	108.9	119.1	117.9	117.1	-9.0	2.0	11.8	32.4	18	26
1981 <sup>1</sup> .....	117.4	137.1	128.9	127.4	-11.5	9.6	.3	42.0	9	25
1982 <sup>1</sup> .....	125.2	150.2	140.1	138.3	-14.9	11.9	-14.6	53.9	( <sup>2</sup> )	30
1983 <sup>1</sup> .....	132.9	161.3	152.0	149.2	-19.2	12.1	-34.8	66.0	( <sup>2</sup> )	36
1984 <sup>1</sup> .....	140.7	172.9	165.1	161.2	-24.4	11.7	-58.2	77.7	( <sup>2</sup> )	41
1985 <sup>1</sup> .....	148.4	194.2	179.2	174.0	-30.8	20.1	-89.0	97.9	( <sup>2</sup> )	45
1986 <sup>1</sup> .....	156.2	209.0	194.4	187.6	-38.1	21.4	-127.2	119.3	( <sup>2</sup> )	52
1987 <sup>1</sup> .....	164.4	223.7	210.5	202.0	-46.1	21.7	-173.3	141.0	( <sup>2</sup> )	59

<sup>1</sup> Because it is estimated that the DI trust fund would have been exhausted in 1979 under prior law, the figures for 1979-87 under prior law are theoretical.

<sup>2</sup> Less than 0.5 percent.

<sup>3</sup> Funds exhausted.

Note: The above estimates are based on the intermediate set of assumptions shown in the 1977 trustees report.

TABLE 5.—ESTIMATED OPERATIONS OF THE OASI TRUST FUND DURING CALENDAR YEARS 1977-87 UNDER PRESENT AND PRIOR LAW

[Dollar amounts in billions]

	Income		Outgo		Net increase in funds		Funds at end of year		Funds at beginning of year as a percentage of outgo during year	
	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)
<b>Calendar year:</b>										
1977.....	\$72.5	\$72.5	\$75.6	\$75.6	-\$3.1	-\$3.1	\$32.3	\$32.3	47	47
1978.....	79.8	78.6	84.0	83.6	-4.2	-5.0	28.1	27.3	38	39
1979.....	87.7	90.8	92.0	91.6	-4.3	-8	23.8	26.5	31	30
1980.....	96.1	101.5	100.6	100.0	-4.4	1.5	19.4	28.0	24	26
1981.....	102.8	116.0	109.4	108.4	-6.7	7.6	12.7	35.6	18	26
1982.....	109.7	127.2	118.4	117.4	-8.7	9.7	4.1	45.3	11	30
1983 <sup>1</sup> .....	116.7	136.6	127.9	126.3	-11.2	10.3	-7.2	55.6	3	36
1984 <sup>1</sup> .....	123.9	146.4	138.3	136.0	-14.4	10.5	-21.5	66.1	( <sup>2</sup> )	41
1985 <sup>1</sup> .....	131.1	162.0	149.5	146.4	-18.4	15.7	-39.9	81.7	( <sup>2</sup> )	45
1986 <sup>1</sup> .....	136.9	174.1	161.4	157.3	-24.5	16.8	-64.4	98.5	( <sup>2</sup> )	52
1987 <sup>1</sup> .....	144.4	186.3	174.1	168.9	-29.7	17.4	-94.2	115.9	( <sup>2</sup> )	58

<sup>1</sup> Because it is estimated that the OASI trust fund would have been exhausted in 1983 under prior law, the figures for 1983-87 under prior law are theoretical.

<sup>2</sup> Fund exhausted in 1983.

Note: The above estimates are based on the intermediate set of assumptions shown in the 1977 trustees report.

TABLE 6.—ESTIMATED OPERATIONS OF THE DI TRUST FUND DURING CALENDAR YEARS 1977-87 UNDER PRESENT AND PRIOR LAW

[Dollar amounts in billions]

Calendar year:	Income		Outgo		Net increase in funds		Funds at end of year		Funds at beginning of year as a percentage of outgo during year	
	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)
	1977	\$9.6	\$9.6	\$12.0	\$12.0	-\$2.4	-\$2.4	\$3.3	\$3.3	48
1978	10.9	13.8	13.6	13.7	-2.8	.2	.5	3.5	24	24
1979 <sup>1</sup>	11.8	15.7	15.3	15.3	-3.5	.4	-3.0	3.9	3	23
1980 <sup>1</sup>	12.8	17.6	17.4	17.1	-4.6	.5	-7.6	4.4	(?)	23
1981 <sup>1</sup>	14.6	21.1	19.5	19.0	-4.9	2.1	-12.5	6.5	(?)	23
1982 <sup>1</sup>	15.5	23.0	21.7	20.9	-6.2	2.1	-18.7	8.6	(?)	31
1983 <sup>1</sup>	16.2	24.7	24.1	22.9	-8.0	1.8	-26.6	10.4	(?)	38
1984 <sup>1</sup>	16.8	26.5	26.8	25.2	-10.0	1.3	-36.6	11.6	(?)	41
1985 <sup>1</sup>	17.3	32.1	29.8	27.7	-12.4	4.5	-49.1	16.1	(?)	42
1986 <sup>1</sup>	19.3	34.9	33.0	30.3	-13.6	4.6	-62.7	20.8	(?)	53
1987 <sup>1</sup>	20.0	37.4	36.4	33.1	-16.4	4.3	-79.1	25.1	(?)	63

<sup>1</sup> Because it is estimated that the DI trust fund would have been exhausted in 1979 under prior law, the figures for 1979-87 under prior law are theoretical.

<sup>2</sup> Fund exhausted in 1979.

Note: The above estimates are based on the intermediate set of assumptions shown in the 1977 trustees report.

TABLE 7.—ESTIMATED OPERATIONS OF THE HI TRUST FUND, DURING CALENDAR YEARS 1977-87 UNDER PRESENT AND PRIOR LAW  
 (Dollar amounts in billions)

	Income		Outgo		Net increase in funds		Funds at end of year		Funds at beginning of year as a percentage of outgo during year	
	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)	Prior law	Present law (1977 amendments)
<b>Calendar year:</b>										
1977.....	\$16.1	\$16.1	\$16.2	\$16.2	-\$0.1	-\$0.1	\$10.5	\$10.5	66	66
1978.....	20.9	19.2	19.0	19.0	1.9	.2	12.4	10.7	55	55
1979.....	23.4	23.1	22.2	22.2	1.2	.9	13.6	11.6	56	48
1980.....	25.6	25.7	25.7	25.7	-.1	( <sup>1</sup> )	13.4	11.5	53	45
1981.....	33.2	34.0	29.7	29.7	3.6	4.3	17.0	15.9	45	39
1982.....	36.2	37.1	33.9	33.9	2.3	3.3	19.3	19.1	50	47
1983.....	38.6	39.7	38.5	38.5	.1	1.2	19.4	20.3	50	50
1984.....	41.0	42.3	43.7	43.7	-2.6	-1.4	16.7	19.0	44	47
1985.....	43.3	46.3	49.1	49.1	-5.9	-2.8	10.9	16.1	34	39
1986.....	50.2	52.4	54.9	54.9	-4.7	-2.5	6.2	13.6	20	29
1987.....	53.4	55.8	61.2	61.2	-7.6	-5.4	-1.4	8.2	10	22

<sup>1</sup> Less than \$0.05 billion.

Note: The above estimates are based on the intermediate set of assumptions shown in the 1977 trustees report.

7

339

**TABLE 8.—CALENDAR YEARS 1978-83: ADDITIONAL CONTRIBUTION INCOME RESULTING FROM 1977 AMENDMENTS**

[In billions]

Calendar year	Increase in contribution and benefit base	Reallocation of tax rates between OASDI and HI	Increase in tax rates for employees and employers	Increase in OASDI self-employment tax rates to 1½ times employee rate	Total <sup>1</sup>
<b>OASDI:</b>					
1978.....		\$1.6			\$1.7
1979.....	\$4.0	1.1	\$1.5		6.6
1980.....	6.3	1.1	1.8		9.2
1981.....	8.0	1.2	8.1	\$0.2	17.6
1982.....	8.8	1.3	10.3	.8	21.3
1983.....	9.4	1.4	11.1	.9	22.9
<b>HI:</b>					
1978.....		-1.6			-1.6
1979.....	9	-1.1			-.2
1980.....	1.4	-1.1			.2
1981.....	2.1	-1.2			.9
1982.....	2.4	-1.3			1.0
1983.....	2.5	-1.4			1.1
<b>OASDHI:</b>					
1978.....					( <sup>2</sup> )
1979.....	4.9		1.5		6.4
1980.....	7.6		1.8		9.4
1981.....	10.1		8.1	.2	18.4
1982.....	11.2		10.3	.8	22.4
1983.....	11.9		11.1	.9	23.9

<sup>1</sup> Includes relatively small amounts of additional taxes payable by employers on employees' income from tips and reduction in taxes due to the provision on totalization agreements.

<sup>2</sup> Amount is less than \$50,000,000.

Note: The above estimates are based on the intermediate set of assumptions in the report of the trustees for 1977.

**TABLE 9.—FISCAL YEARS 1978-83: ADDITIONAL CONTRIBUTION INCOME RESULTING FROM 1977 AMENDMENTS**

[In billions]

Fiscal year	Increase in contribution and benefit base	Reallocation of tax rates between OASDI and HI	Increase in tax rates for employees and employers	Increase in OASDI self-employment tax rates to 1½ times employee rate	Total <sup>1</sup>
<b>OASDI:</b>					
1978		\$1.2			\$1.3
1979	\$1.7	1.2	\$1.1		4.1
1980	5.8	1.1	1.7		8.7
1981	7.9	1.2	6.7	\$0.2	16.1
1982	10.0	1.4	10.4	.8	22.6
1983	10.7	1.5	11.8	.9	24.9
<b>HI:</b>					
1978		-1.2			-1.2
1979	.4	-1.2			-.8
1980	1.3	-1.1			.2
1981	1.9	-1.2			.6
1982	2.7	-1.4			1.3
1983	2.9	-1.5			1.3
<b>OASDHI:</b>					
1978					( <sup>2</sup> )
1979	2.1		1.1		3.3
1980	7.1		1.7		8.8
1981	9.8		6.7	.2	16.7
1982	12.6		10.4	.8	23.9
1983	13.5		11.8	.9	26.3

<sup>1</sup> Includes relatively small amounts of additional taxes payable by employers on employees' income from tips and reduction in taxes due to the provision on totalization agreements.

<sup>2</sup> Amount is less than \$50,000,000.

Note: Based on assumptions underlying President's 1979 budget.

TABLE 10.—ESTIMATED AMOUNT OF CHANGES IN OASDI BENEFIT PAYMENTS UNDER 1977 AMENDMENTS, CALENDAR YEARS 1978-83

[In millions]

	Calendar years—					
	1978	1979	1980	1981	1982	1983
Total amount of change in benefit payments.....	-\$440	-\$492	-\$844	-\$1,446	-\$1,696	-\$2,577
Benefit structure—net total.....		-70	-351	-803	-1,473	-2,377
Decoupling and wage-indexing formula (net).....		-94	-423	-895	-1,563	-2,466
5-year transition guarantee.....		24	79	118	150	180
Frozen minimum benefit.....			-7	-26	-60	-106
3-percent delayed retirement credit.....						15
Changes in retirement test—net total.....	54	266	359	404	895	981
Increases in exempt amount <sup>1</sup> .....	267	491	585	640	709	762
Reduction in exempt age from 72 to 70 in 1982.....					403	441
Elimination of monthly measure.....	-213	-225	-226	-236	-217	-222



Establish the retirement test exempt amount for beneficiaries aged 65 and over as a measure of substantial gainful activity for blind disabled workers.....

Elimination of retroactive payments of actuarially reduced benefits...	-339	-536	-550	-559	-565	-569
Limitation on increases in actuarially reduced benefits.....	-90	-280	-500	-751	-948	-1,157
Increase in benefits of surviving spouses, resulting from deceased workers' delayed retirement credits.....	3	4	5	7	10	13
Delayed retirement credits for workers with actuarially reduced benefits.....		14	22	24	26	30
Reduction in benefits of spouses receiving public retirement pensions..	-68	-106	-108	-110	-112	-116
Eliminate reduction in widowed spouses benefits due to remarriage after age 60.....		130	155	166	178	189
Reduction in duration of marriage required for divorced spouses benefits from 20 years to 10 years.....		67	80	86	92	98
Increase in special minimum benefits.....		12	14	14	15	16
Changes in annual wage reporting provisions.....	( <sup>1</sup> )	1	4	9	18	26
Authorization to enter into totalization agreements <sup>2</sup> .....	( <sup>3</sup> )	5	4	4	5	6
Higher benefits resulting from increases in wages subject to tax.....		( <sup>1</sup> )	21	62	161	281

<sup>1</sup> Exempt amount increased for beneficiaries aged 65 and over to \$4,000 in 1978; \$4,500 in 1979; \$5,000 in 1980; \$5,500 in 1981; and \$6,000 in 1982.

<sup>2</sup> The estimates represent additional OASDI benefit payments that would result from implementation of totalization agreements already signed with Italy and West Germany. No agreement can become effective if either House

of Congress disapproves the agreement within 90 days after it is submitted to Congress.

<sup>3</sup> Less than \$500,000.

Note: A positive figure represents additional benefit payments, and a negative figure represents a reduction in benefit payments.

TABLE 11.—CHANGES IN THE ACTUARIAL BALANCE OF THE OASDI SYSTEM OVER THE LONG-RANGE PERIOD (1977-2051) UNDER THE SOCIAL SECURITY ACT AS AMENDED THROUGH PUBLIC LAW 95-216

[As percent of taxable payroll]

Item	OASI	DI	OASDI
<b>Under the act prior to amendments in Public Law 95-216:</b>			
Long-range expenditures.....	15.51	3.68	19.19
Long-range tax rate.....	9.45	1.55	10.99
Long-range actuarial balance.....	-6.06	-2.14	-8.20
<b>Effects of 1977 amendments:</b>			
Decoupling.....	9.63	2.32	11.95
New (wage-indexed) benefit formula.....	-5.91	-1.24	-7.16
Frozen minimum at the December 1978 level....	.07	.02	.08
Changes in the special minimum.....	0	0	0
Reduction in spouses benefits for Government pensions.....	.04	0	.04
Changes in the retirement test.....	-.11	0	-.11
3-percent delayed retirement credit.....	-.04	.....	-.04
Delayed retirement credit for widows.....	-.01	.....	-.01
Remarriage after age 60 of widowed-spouse beneficiaries.....	-.01	0	-.01
Elimination of retroactive payments of actuarially reduced benefits.....	.01	0	.01
Change in the method of increasing actuarially reduced benefits.....	.24	0	.24
Changes in SGA for the blind.....	0	0	0
Employer tax liability on tips deemed to be wages.....	0	0	0
Correction of coverage regarding limited partnerships.....	0	0	0
Tax relief for related corporations.....	0	0	0
10-year marriage requirement for divorced beneficiaries.....	0	0	0
Annual reporting of earnings.....	-.01	0	-.01
Changes in the earnings base.....	.45	.08	.54
Change in self-employed tax rate to 150 percent of employee tax rate.....	.08	.02	.10
Change in employee-employer tax schedule.....	.57	.57	1.14
Total effect of Public Law 95-216.....	4.98	1.75	6.74
<b>Under the act as amended through Public Law 95-216:</b>			
Long-range actuarial balance.....	-1.08	-.38	-1.46
Long-range tax rate.....	10.01	2.11	12.12
Long-range expenditures.....	11.09	2.49	13.58

Note: Expenditures and taxable payroll are calculated under the intermediate set of assumptions (alternative II) which are described in the 1977 Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. These assumptions incorporate ultimate annual increases of 5 1/2 percent in average wages in covered employment and 4 percent in Consumer Price Index, an ultimate unemployment rate of 5 percent, and an ultimate total fertility rate of 2.1 children per woman. Taxable payroll is adjusted to take into account the lower contributions rates on self-employed income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

TABLE 12.—COMPARISON OF THE ESTIMATED EXPENDITURES WITH THE SCHEDULED TAX RATES FOR THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS AMENDED THROUGH PUBLIC LAW 95-216, CALENDAR YEARS 1977-2055

[In percent of taxable payroll]

Calendar year	Estimated expenditures			Tax rate	Difference
	Old-age and survivors insurance	Disability insurance	Total		
1977.....	9.39	1.50	10.89	9.90	-0.99
1978.....	9.33	1.53	10.86	10.10	-.76
1979.....	8.80	1.47	10.28	10.16	-.12
1980.....	8.63	1.48	10.11	10.16	.05
1981.....	8.51	1.49	10.00	10.70	.70
1982.....	8.59	1.53	10.11	10.80	.69
1983.....	8.65	1.57	10.22	10.80	.58
1984.....	8.71	1.62	10.33	10.80	.47
1985.....	8.79	1.66	10.45	11.40	.95
1986.....	8.85	1.70	10.56	11.40	.84
1987.....	8.91	1.74	10.65	11.40	.75
1988.....	8.81	1.78	10.60	11.40	.80
1989.....	8.76	1.83	10.59	11.40	.81
1990.....	8.71	1.87	10.58	12.40	1.82
1991.....	8.70	1.91	10.61	12.40	1.79
1992.....	8.69	1.95	10.64	12.40	1.76
1993.....	8.68	1.99	10.67	12.40	1.73
1994.....	8.68	2.03	10.71	12.40	1.69
1995.....	8.68	2.07	10.75	12.40	1.65
1996.....	8.66	2.12	10.78	12.40	1.62
1997.....	8.64	2.18	10.82	12.40	1.58
1998.....	8.63	2.23	10.86	12.40	1.54
1999.....	8.63	2.28	10.91	12.40	1.49
2000.....	8.63	2.34	10.96	12.40	1.44
2001.....	8.64	2.40	11.04	12.40	1.36
2005.....	8.71	2.64	11.35	12.40	1.05
2010.....	9.30	2.88	12.17	12.40	.23
2015.....	10.45	2.99	13.44	12.40	-1.04
2020.....	11.97	3.02	14.99	12.40	-2.59
2025.....	13.49	2.91	16.40	12.40	-4.00
2030.....	14.35	2.78	17.13	12.40	-4.73
2035.....	14.45	2.70	17.15	12.40	-4.75
2040.....	13.97	2.72	16.69	12.40	-4.29
2045.....	13.50	2.79	16.29	12.40	-3.89
2050.....	13.35	2.82	16.18	12.40	-3.78
2055.....	13.41	2.83	16.24	12.40	-3.84
25-year averages:					
1977-2001.....	8.75	1.85	10.60	11.57	.97
2002-2026.....	10.59	2.86	13.46	12.40	-1.06
2027-2051.....	13.93	2.77	16.69	12.40	-4.29
75-year average:					
1977-2051.....	11.09	2.49	13.58	12.12	-1.46

Note: Expenditures and taxable payroll are calculated under the intermediate set of assumptions (alternative II) which are described in the 1977 Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. These assumptions incorporate ultimate annual increases of 5½ percent in average wages in covered employment and 4 percent in Consumer Price Index, an ultimate unemployment rate of 5 percent, and an ultimate total fertility rate of 2.1 children per woman. Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

Most of the tables in this document present estimates of the cost of the social security program (or of proposals to modify the financing of that program). These estimates are based on a set of economic and demographic assumptions made by the actuaries who calculate the estimates. In the annual actuarial evaluation of the social security program by the trustees of the social security trust fund, three sets of assumptions are adopted, representing a range of possible developments which could be characterized as optimistic, intermediate, and pessimistic. The intermediate assumptions are generally referred to and, in fact, underlie most of the tables in this document. Table 13, below, however, shows the range of estimates resulting from the three sets of assumptions used by the trustees in developing their 1977 reports.

**TABLE 13.—LONG-RANGE ESTIMATES OF THE OASDI PROGRAM UNDER 3 SETS OF ACTUARIAL ASSUMPTIONS**

(In percent of taxable payroll)

Assumptions	1977-2001			1977-2051		
	Expenditures	Tax rate	Surplus or deficit	Expenditures	Tax rate	Surplus or deficit
Alternative I....	10.30	11.57	+1.27	12.66	12.12	-0.54
Alternative II...	10.60	11.57	+ .97	13.58	12.12	-1.46
Alternative III..	10.95	11.57	+ .62	15.38	12.12	-3.26

### ALTERNATIVE FINANCING PROPOSALS

As shown in table 4, the 1977 Social Security Amendments reversed the short-range deficit situation of the program under which the combined cash benefit trust funds had been projected to be exhausted by the end of 1982. Instead, under the new law, the cash benefits fund reserves reach a low of 25 percent of 1 year's outgo at the beginning of 1981 and then build up to 59 percent of a year's outgo by the start of 1987. As shown in the table, this result arises partly from a reduction in benefit costs under the new amendments but more substantially as a result of increased payroll tax revenues. (Over the next 10 years, program costs decline by a total of \$32 billion while income grows by \$282 billion.)

The substantial increases in the level of payroll taxes required by the 1977 legislation have been a cause of concern leading to a number of proposals designed to lessen the impact of those taxes. In general there appear to be three approaches which could be used to achieve that result: (1) Reducing the cost of the social security program; (2) providing some other source of funding; and (3) reducing income taxes to offset the impact of the increased social security taxes.

As of the date this document was prepared, a number of proposals designed to lessen the impact of social security taxes have been put forward. Some of these proposals deal with the social security payroll tax incidence in a general way while others are targeted at specific elements such as the tax on employers or the tax that arises from increases in rates as compared with prior law or as compared with 1977. Some of the elements comprising the social security tax for the next 3 years (1978-80) are shown in table 14 below.

TABLE 14.—SOCIAL SECURITY TAX LIABILITY UNDER PRESENT LAW COMPARED WITH PRIOR LAW AND WITH 1977 TAX LEVELS

(In billions of dollars)

Calendar year	Prior law tax rates and—			1977 tax rates and—		
	Present law	Present law base	Prior law base	Present law base	Prior law base	1977 base
1978, total.....	107.1	107.1	107.0	103.5	103.5	101.2
Employees.....	51.0	51.0	51.0	49.3	49.3	48.2
Employers.....	51.6	51.6	51.5	49.8	49.8	48.8
Self-employed.....	4.5	4.5	4.5	4.4	4.4	4.3
1979, total.....	126.2	124.6	118.3	120.6	114.4	109.2
Employees.....	60.2	59.4	56.4	57.5	54.5	51.9
Employers.....	60.7	59.9	57.0	57.9	55.1	52.7
Self-employed.....	5.3	5.3	4.9	5.2	4.8	4.5
1980, total.....	142.4	140.6	132.0	136.0	127.6	118.1
Employees.....	68.0	67.1	62.9	64.9	60.9	56.1
Employers.....	68.5	67.6	63.7	65.3	61.5	57.2
Self-employed.....	5.9	5.9	5.4	5.8	5.2	4.7

Note: The above estimates are based on the economic assumptions that underlie the President's 1979 budget.

*Administration tax package.*—The President has proposed a package involving numerous changes in the tax laws (particularly the income tax laws) which would result in net reductions in revenue amounting to some \$25 billion. In submitting this package to Congress, the President indicated that one of its objectives was to offset the impact of the social security tax increases. Tables 15 to 18 below are reprinted from the materials prepared by the administration in connection with its tax proposals to show the combined impact of social security and income taxes in 1978 and 1979. The amounts shown as social security taxes (FICA) under "present law" in these tables are actually 1977 taxes and do not reflect the increases in the tax rate and tax base in 1978 and 1979 under either present law or the law as it was in effect prior to the 1977 amendments. (The increase in social security taxes—which went into effect January 1, 1978 is the result of the law in effect prior to the 1977 amendments while additional increases are provided under the 1977 legislation starting January 1, 1979.)

TABLE 15.—1978 COMBINED INCOME TAX AND SOCIAL SECURITY (FICA) TAX BURDENS: 4 PERSON, 1-EARNER FAMILIES

[In dollars]

Wage income	Present law tax			1978 proposed tax			Change in tax		
	Income tax <sup>1</sup>	FICA tax <sup>2</sup>	Total tax	Income tax <sup>1</sup>	FICA tax <sup>2</sup>	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-300	292	-8	-300	303	3	0	11	11
\$10,000.....	446	585	1,031	192	605	797	-254	20	-234
\$15,000.....	1,330	877	2,207	1,166	908	2,074	-164	31	-133
\$20,000.....	2,180	965	3,145	2,042	1,071	3,113	-138	106	-32
\$25,000.....	3,150	965	4,115	3,025	1,071	4,096	-125	106	-19
\$30,000.....	4,232	965	5,197	4,150	1,071	5,221	-82	106	24
\$40,000.....	6,848	965	7,813	6,748	1,071	7,819	-100	106	6
\$50,000.....	9,950	965	10,915	9,855	1,071	10,926	-95	106	11
\$100,000...	28,880	965	29,845	28,640	1,071	29,711	-240	106	-134

<sup>1</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>2</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

<sup>3</sup> Calculated under present law rate and base for 1978 (6.05 percent and \$17,700), employees' share only.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

TABLE 16.—1979 COMBINED INCOME TAX AND SOCIAL SECURITY (FICA) TAX BURDENS: 4 PERSON, 1-EARNER FAMILIES

[In dollars]

Wage income	Present law tax			1979 proposed tax			Change in tax		
	Income tax <sup>1</sup>	FICA tax <sup>2</sup>	Total tax	Income tax <sup>1</sup>	FICA tax <sup>2</sup>	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-300	292	-8	-300	306	6	0	14	14
\$10,000.....	446	585	1,031	134	613	747	-312	28	-284
\$15,000.....	1,330	877	2,207	1,072	919	1,991	-258	42	-216
\$20,000.....	2,180	965	3,145	1,910	1,226	3,136	-270	261	-9
\$25,000.....	3,150	965	4,115	2,830	1,404	4,234	-320	439	119
\$30,000.....	4,232	965	5,197	3,910	1,404	5,314	-322	439	117
\$40,000.....	6,848	965	7,813	6,630	1,404	8,034	-218	439	221
\$50,000.....	9,950	965	10,915	9,870	1,404	11,274	-80	439	359
\$100,000...	28,880	965	29,845	29,470	1,404	30,874	590	439	1,029

<sup>1</sup> Assumes deductible expenses equal to 23 percent of income under present law.

<sup>2</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

<sup>3</sup> Assumes deductible expenses equal to 20 percent of income under proposal.

<sup>4</sup> Calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only.

TABLE 17.—1978 COMBINED INCOME TAX AND SOCIAL SECURITY (FICA) TAX BURDENS: 4 PERSON, 2-EARNER FAMILIES<sup>1</sup>

[in dollars]

Wage Income	Present law tax			1978 proposed tax			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-300	292	-8	-300	303	3	0	11	11
\$10,000.....	446	585	1,031	192	605	797	-254	20	-234
\$15,000.....	1,330	877	2,207	1,166	908	2,074	-164	31	-133
\$20,000.....	2,180	1,170	3,350	2,042	1,210	3,252	-138	40	-98
\$25,000.....	3,150	1,463	4,613	3,025	1,513	4,538	-125	50	-75
\$30,000.....	4,232	1,755	5,987	4,150	1,815	5,965	-82	60	-22
\$40,000.....	6,848	1,931	8,779	6,748	2,142	8,890	-100	211	111
\$50,000.....	9,950	1,931	11,881	9,855	2,142	11,997	-95	211	116
\$100,000....	28,880	1,931	30,811	28,640	2,142	30,782	-240	211	-29

<sup>1</sup> Assumes that each spouse earns 50 percent of total family income.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

<sup>4</sup> Calculated under present law rate and base for 1978 (6.05 percent and \$17,700), employees' share only.

TABLE 18.—1979 COMBINED INCOME TAX AND SOCIAL SECURITY (FICA) TAX BURDENS: 4-PERSON, 2-EARNER FAMILIES<sup>1</sup>

[in dollars]

Wage Income	Present law tax			1979 proposed tax			Change in tax		
	Income tax <sup>2</sup>	FICA tax <sup>3</sup>	Total tax	Income tax <sup>4</sup>	FICA tax <sup>3</sup>	Total tax	Income tax	FICA tax	Total tax
\$5,000.....	-300	292	-8	-300	306	6	0	14	14
\$10,000.....	446	585	1,031	134	613	747	-312	28	-284
\$15,000.....	1,330	877	2,207	1,072	919	1,991	-258	42	-216
\$20,000.....	2,180	1,170	3,350	1,910	1,226	3,136	-270	56	-214
\$25,000.....	3,150	1,463	4,613	2,830	1,533	4,363	-320	70	-250
\$30,000.....	4,232	1,755	5,987	3,910	1,839	5,749	-322	84	-238
\$40,000.....	6,848	1,931	8,779	6,630	2,452	9,082	-218	521	303
\$50,000.....	9,950	1,931	11,881	9,870	2,808	12,678	-80	877	797
\$100,000....	28,880	1,931	30,811	29,470	2,808	32,278	590	877	1,467

<sup>1</sup> Assumes that each spouse earns 50 percent of total family income.

<sup>2</sup> Assumes deductible expenses equal to 23 percent of income under present law.

<sup>3</sup> Calculated under prior law rate for 1977 (5.85 percent) and prior law base for 1977 (\$16,500), employees' share only.

<sup>4</sup> Assumes deductible expenses equal to 20 percent of income under proposal.

<sup>5</sup> Calculated under present law rate and base for 1979 (6.13 percent and \$22,900), employees' share only.

*S. 2459 (Senator Eagleton).*—S. 2459 is one of a number of proposals which have been introduced to offset the impact of social security taxes by a reduction in income taxes which is directly based on social security tax liability. The bill would allow as a credit against income taxes an amount equal to 15 percent of the amount paid by an employee or self-employed person after September 30, 1978 in social security or railroad retirement taxes. The credit would not be refundable but would be limited to the amount of the individual's income tax liability. The credit would not apply to the employer portion of the social security tax. The 1979 revenue reduction resulting from this bill would be approximately \$8 to \$9 billion.

*S. 2501 (Senator Hathaway and others).* S. 2501 would modify the financing of the social security program so that the cost of the program would be paid one-third by employees, one-third by their employers and one-third from the general revenues of the United States. In order to provide general revenue funding, the bill would make a permanent appropriation to the social security trust funds equal to 150 percent (rather than the 100 percent provided under present law) of the social security taxes collected from employees, their employers and the self-employed.

The new financing provisions would become effective January 1, 1979. The revised schedule of taxes is shown in table 19.

In addition, the bill would increase the social security tax base to \$100,000 in 1979 with automatic increases thereafter. The estimated increases in the tax base for years after 1979 are shown in table 20.

Estimates of the reduction in social security payroll taxes which would result from the enactment of S. 2501, along with the payments from general revenues that would be appropriated, are shown in table 21.



TABLE 19.—SOCIAL SECURITY TAX RATES UNDER PRESENT LAW AND UNDER S. 2501, EMPLOYEE AND EMPLOYER, EACH

	Current law					S. 2501				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
<b>Calendar year:</b>										
1978 .....	4.275	0.775	5.050	1.000	6.050	4.275	0.775	5.050	1.000	6.050
1979-80 .....	4.330	.750	5.080	1.050	6.130	2.700	.500	3.200	.700	3.900
1981 .....	4.525	.825	5.350	1.300	6.650	2.770	.480	3.250	.750	4.000
1982 .....	4.575	.825	5.400	1.300	6.700	2.770	.480	3.250	.750	4.000
1983-84 .....	4.575	.825	5.400	1.300	6.700	2.745	.505	3.250	.750	4.000
1985 .....	4.750	.950	5.700	1.350	7.050	2.960	.590	3.550	.900	4.450
1986-89 .....	4.750	.950	5.700	1.450	7.150	2.960	.590	3.550	.900	4.450
1990-2009 .....	5.100	1.100	6.200	1.450	7.650	3.100	.900	4.000	.900	4.900
2010 .....	5.100	1.100	6.200	1.450	7.650	3.900	.900	4.800	.900	5.700
2011 and later .....	5.100	1.100	6.200	1.450	7.650	3.900	.900	4.800	.900	5.700

TABLE 20.—SOCIAL SECURITY TAX BASE UNDER PRESENT LAW AND UNDER S. 2501

Calendar year	Present law	S. 2501
1977.....	\$16,500	\$16,500
1978.....	17,700	17,700
1979.....	22,900	100,000
1980.....	25,900	<sup>1</sup> 108,000
1981.....	29,700	<sup>1</sup> 116,400
1982.....	<sup>1</sup> 31,800	<sup>1</sup> 124,500
1983.....	<sup>1</sup> 33,900	<sup>1</sup> 132,600
1984.....	<sup>1</sup> 36,000	<sup>1</sup> 140,400
1985.....	<sup>1</sup> 38,100	<sup>1</sup> 148,500
1986.....	<sup>1</sup> 40,200	<sup>1</sup> 156,900
1987.....	<sup>1</sup> 42,600	<sup>1</sup> 165,900

<sup>1</sup> Estimated—Base increases automatically as wage levels rise.

TABLE 21.—REDUCTION IN OASDI AND HI TAX CONTRIBUTION INCOME AND AMOUNT OF GENERAL FUND CONTRIBUTIONS UNDER S. 2501, CALENDAR YEARS 1979-87 AND FISCAL YEARS 1979-83

(In billions)

	Reduction in tax contribution income			Amount of general fund contributions <sup>1</sup>		
	OASDI	HI	Total	OASDI	HI	Total
Calendar year: <sup>1</sup>						
1979.....	\$29.7	\$5.3	\$35.0	\$33.3	\$7.2	\$40.5
1980.....	34.9	6.2	41.2	40.8	8.8	49.5
1981.....	44.5	11.7	56.2	44.8	10.1	54.9
1982.....	50.3	13.0	63.3	48.1	10.9	58.9
1983.....	54.1	13.9	68.1	51.4	11.6	63.0
1984.....	57.9	14.9	72.9	54.8	12.4	67.2
1985.....	61.3	12.6	73.9	63.3	15.6	79.0
1986.....	65.1	16.3	81.4	68.1	16.9	85.1
1987.....	69.5	17.7	87.2	72.6	18.0	90.7
Fiscal year: <sup>2</sup>						
1979.....	24.7	4.5	29.2	24.1	5.2	29.4
1980.....	33.5	6.0	39.5	40.1	8.6	48.7
1981.....	42.8	10.5	53.3	45.2	10.1	55.3
1982.....	51.5	13.4	64.9	50.3	11.4	61.7
1983.....	56.8	14.6	71.4	54.9	12.4	67.3

<sup>1</sup> Based on the intermediate assumptions in the 1977 trustees report.

<sup>2</sup> S. 2501 provides for general fund contributions amounting to 50 percent of payroll tax contributions for each trust fund.

<sup>3</sup> Based on the 1979 budget assumptions.

*S. 2503 (Senator Nelson and others).*—S. 2503 would modify the financing of the social security programs so that the disability insurance program and part A of the hospital insurance program would be financed from general revenues. Under the provisions of the bill, the Congress would pass legislation each year authorizing the amount of money that could be appropriated for the two programs and these authorizations would then go through the regular appropriation process. The bill states that the authorization for each program would be for “such sums as may be determined . . . to be necessary to provide for the prompt payment of the benefits . . . and administrative expenses . . . and to provide an adequate contingency reserve”.

These changes would be effective for fiscal years which end after the date of enactment. (If enactment occurred prior to September 30, 1978, authorization and appropriations would be needed for fiscal year 1979.)

In addition, the bill would revise the schedule of social security taxes as shown in table 22.

Estimates of income, outgo, and assets under present law and under S. 2503 for calendar years 1979–80 are shown in table 23. Table 24 shows the reduction in taxes for calendar years 1979–87 that would result from enactment of the bill. The table also shows the estimated additional general revenue income that would be needed to maintain the DI and HI trust funds at their 1979 ratios of assets to expenditures (25 percent for HI and 56 percent for DI).

**TABLE 22.—SOCIAL SECURITY TAX RATES UNDER CURRENT LAW AND UNDER S. 2503**

**EMPLOYEE AND EMPLOYER, EACH**

[In percent]

Calendar year	Current law					S. 2503, OASI <sup>1</sup>
	OASI	DI	OASDI	HI	Total	
1979 and 1980.....	4.330	0.750	5.08	1.05	6.13	4.33
1981.....	4.525	.825	5.35	1.30	6.65	4.40
1982-84.....	4.575	.825	5.40	1.30	6.70	4.40
1985.....	4.750	.950	5.70	1.35	7.05	4.40
1986-89.....	4.750	.950	5.70	1.45	7.15	4.40
1990-2001.....	5.100	1.100	6.20	1.45	7.65	4.40
2002-10.....	5.100	1.100	6.20	1.45	7.65	4.60
2011-20.....	5.100	1.100	6.20	1.45	7.65	5.40
2021 and later...	5.100	1.100	6.20	1.45	7.65	6.80

**SELF-EMPLOYMENT TAX**

Year	Current law					S. 2503 OASI <sup>1</sup>
	OASI	DI	OASDI	HI	Total	
1979-80.....	6.0100	1.0400	7.05	1.05	8.10	6.495
1981.....	6.7625	1.2375	8.00	1.30	9.30	6.6
1982-84.....	6.8125	1.2375	8.05	1.30	9.35	6.6
1985.....	7.1250	1.4250	8.55	1.35	9.90	6.6
1986-89.....	7.1250	1.4250	8.55	1.45	10.00	6.6
1990-2001.....	7.6500	1.6500	9.30	1.45	10.75	6.6
2002-10.....	7.6500	1.6500	9.30	1.45	10.75	6.9
2011-20.....	7.6500	1.6500	9.30	1.45	10.75	8.1
2021 and later.....	7.6500	1.6500	9.30	1.45	10.75	10.2

<sup>1</sup> This would be the only payroll tax under S. 2503.

**TABLE 23.—ESTIMATED OPERATIONS OF THE OASI TRUST FUND UNDER PRESENT LAW AND UNDER THE PROGRAM AS MODIFIED BY S. 2503, CALENDAR YEARS 1977-87**

(Amounts in billions)

Calendar year	Income		Outgo		Net increase in fund	
	Present law	S. 2503	Present law	S. 2503	Present law	S. 2503
1977.....	\$72.5	\$72.5	\$75.6	\$75.6	-\$3.1	-\$3.1
1978.....	78.6	78.6	83.6	83.6	-5.0	-5.0
1979.....	90.8	90.8	91.6	91.6	-.8	-.8
1980.....	101.5	101.9	100.0	100.0	1.5	1.9
1981.....	116.0	113.4	108.4	108.4	7.6	4.9
1982.....	127.2	122.2	117.4	117.4	9.7	4.8
1983.....	136.6	130.9	126.3	126.4	10.3	4.5
1984.....	146.4	140.0	136.0	136.0	10.5	3.9
1985.....	162.0	149.3	146.4	146.4	15.7	2.8
1986.....	174.1	159.1	157.3	157.4	16.8	1.7
1987.....	186.3	169.4	168.9	169.1	17.4	.4

	Assets at end of year		Assets at beginning of year as a percentage of outgo during year	
	Present law	S. 2503	Present law	S. 2503
1977.....	\$32.3	\$32.3	47	47
1978.....	27.3	27.3	39	39
1979.....	26.5	26.6	30	30
1980.....	28.0	28.5	26	27
1981.....	35.6	33.4	26	26
1982.....	45.3	38.2	30	28
1983.....	55.6	42.7	36	30
1984.....	66.1	46.6	41	31
1985.....	81.7	49.5	45	32
1986.....	98.5	51.1	52	31
1987.....	115.9	51.5	58	30

Note: The above estimates are based on the intermediate assumptions in the 1977 trustee's report.

TABLE 24.—REDUCTION IN OASDI AND HI TAX CONTRIBUTION INCOME AND AMOUNT OF GENERAL FUND CONTRIBUTIONS UNDER S. 2503, CALENDAR YEARS 1979-87 AND FISCAL YEARS 1979-83

[In billions]

	Reduction in tax contribution income					Amount of general fund contributions <sup>1</sup>		
	OASI	DI	OASDI	HI	Total	DI	HI	Total
<b>Calendar year:<sup>2</sup></b>								
1979.....	<sup>3</sup> (\$0.1)	\$14.2	\$14.1	\$19.8	\$34.0	\$14.1	\$20.9	\$35.0
1980.....	<sup>4</sup> (.4)	17.2	16.8	23.8	40.6	17.2	25.9	43.1
1981.....	2.5	20.6	23.2	31.8	55.0	19.0	29.9	49.0
1982.....	4.6	22.4	27.0	34.7	61.7	20.9	34.1	55.1
1983.....	5.0	24.0	29.0	37.2	66.1	23.0	38.9	61.9
1984.....	5.3	25.6	31.0	39.7	70.7	25.3	44.1	69.4
1985.....	11.0	31.1	42.1	43.9	86.0	27.7	49.6	77.4
1986.....	12.3	33.6	45.9	50.2	96.0	30.3	55.3	85.7
1987.....	13.1	35.8	48.9	53.8	102.7	33.2	61.7	94.9
<b>Fiscal year:<sup>4</sup></b>								
1979.....	<sup>3</sup> (.1)	10.7	10.6	14.9	25.5	10.6	14.9	25.5
1980.....	<sup>3</sup> (.3)	16.8	16.5	23.2	39.7	16.9	24.5	41.5
1981.....	2.0	20.3	22.2	30.7	52.9	18.8	28.5	47.3
1982.....	4.5	23.3	27.8	36.2	64.0	20.7	32.8	53.4
1983.....	5.4	25.4	30.8	39.5	70.3	22.8	37.3	60.1

<sup>1</sup> Amount required to maintain a constant level of trust fund assets at end of year as a percentage of outgo during year. At the end of 1978, these percentages are 25 percent for the DI trust fund and 56 percent for the HI trust fund, for the intermediate assumptions in the 1977 trustees report.

<sup>2</sup> Based on the intermediate assumptions in the 1977 trustees report.

<sup>3</sup> Amount shown in parentheses represents an increase rather than a reduction.

<sup>4</sup> Based on the 1979 budget assumptions.

*Alternative proposal (Senator Nelson).*—In testimony before the Senate Budget Committee, Senator Nelson described a proposal under which there would be a 3-year moratorium on the social security financing provisions enacted last year.

Under this proposal, the total OASDHI tax rate and base would be returned to the levels provided under the law in effect prior to the enactment of the Social Security Amendments of 1977 (Public Law 95-216) but the distribution of the taxes between the three programs (old-age and survivors insurance, disability insurance, and hospital insurance) would be changed so that the payroll tax would provide sufficient funds to support the cash-benefits programs (old-age, survivors and disability insurance). In effect, hospital insurance payroll taxes would be reduced and the difference would be made up by payments from general revenues as follows:

Year:	Payments from general revenues	Billions
1979.....	-----	\$6.4
1980.....	-----	9.4
1981.....	-----	18.3
Total.....	-----	34.0

The tax rates under prior law, present law and the proposal are shown in table 25, and the maximum amounts of earnings taxable under present law and the proposal (which is the law in effect prior to the enactment of the 1977 amendments) are shown in table 26. The effect these changes would have on the social security trust funds is shown in tables 27 and 28.

TABLE 25.—SOCIAL SECURITY TAX RATES UNDER PRESENT AND PRIOR LAW AND NELSON ALTERNATIVE

(In percent)

Calendar year	Prior law			Present law			Nelson alternative		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
<b>Employers and employees, each:</b>									
1977.....	4.95	.90	5.85	4.95	0.90	5.85	4.95	0.90	5.85
1978.....	4.95	1.10	6.05	5.05	1.00	6.05	5.05	1.00	6.05
1979.....	4.95	1.10	6.05	5.08	1.05	6.13	5.30	.75	6.05
1980.....	4.95	1.10	6.05	5.08	1.05	6.13	5.40	.65	6.05
1981.....	4.95	1.35	6.30	5.35	1.30	6.65	5.75	.55	6.30
1982.....	4.95	1.35	6.30	5.40	1.30	6.70	5.40	1.30	6.70
<b>Self-employed persons:</b>									
1977.....	7.00	.90	7.90	7.00	.90	7.90	7.00	.90	7.90
1978.....	7.00	1.10	8.10	7.10	1.00	8.10	7.10	1.00	8.10
1979.....	7.00	1.10	8.10	7.05	1.05	8.10	7.35	.75	8.10
1980.....	7.00	1.10	8.10	7.05	1.05	8.10	7.45	.65	8.10
1981.....	7.00	1.35	8.35	8.00	1.30	9.30	8.65	.55	9.20
1982.....	7.00	1.35	8.35	8.05	1.30	9.35	8.05	1.30	9.35

TABLE 26.—SOCIAL SECURITY TAX BASE UNDER PRESENT AND PRIOR LAW AND NELSON ALTERNATIVE

Calendar year	Prior law	Present law	Nelson alternative
1977.....	\$16,500	\$16,500	\$16,500
1978.....	17,700	17,700	17,700
1979.....	<sup>1</sup> 18,900	22,900	<sup>1</sup> 18,900
1980.....	<sup>1</sup> 20,400	25,900	<sup>1</sup> 20,400
1981.....	<sup>1</sup> 21,900	29,700	<sup>1</sup> 21,900
1982.....	<sup>1</sup> 24,400	<sup>1</sup> 31,800	<sup>1</sup> 31,800

<sup>1</sup> Estimated.

TABLE 27.—ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS, COMBINED, UNDER PRESENT LAW AND UNDER THE PROGRAMS AS MODIFIED BY NELSON ALTERNATIVE PROPOSAL, CALENDAR YEARS 1977-81

(In billions)

Calendar years	Income		Outgo		Net increase in funds		Assets at end of year	
	Present law	Pro-posal	Present law	Pro-posal	Present law	Proposal	Present law	Pro-posal
1977.....	\$82.1	\$82.1	\$87.6	\$87.6	-\$5.5	-\$5.5	\$35.6	\$35.6
1978.....	92.4	92.4	97.2	97.2	-4.8	-4.8	30.8	30.8
1979.....	106.5	106.4	106.9	106.9	-.4	-.4	30.4	30.3
1980.....	119.1	119.5	117.1	117.0	2.0	2.4	32.4	32.8
1981.....	137.1	137.8	127.4	127.3	9.6	10.5	42.0	43.3

TABLE 28.—ESTIMATED OPERATIONS OF THE HI TRUST FUND UNDER PRESENT LAW AND UNDER THE PROGRAM AS MODIFIED BY A NELSON ALTERNATIVE PROPOSAL, CALENDAR YEARS 1977-81

(In billions)

Calendar years	Income <sup>1</sup>		Outgo		Net increase in fund		Assets at end of year <sup>1</sup>		General fund contributions under proposal
	Present law	Pro-posal	Present law	Pro-posal	Present law	Pro-posal	Present law	Pro-posal	
1977.....	\$16.1	\$16.1	\$16.2	\$16.2	-\$0.1	-\$0.1	\$10.5	\$10.5	.....
1978.....	19.2	19.2	19.0	19.0	.2	.2	10.7	10.7	.....
1979.....	23.1	23.2	22.2	22.2	.9	1.0	11.6	11.6	\$6.4
1980.....	25.7	25.3	25.7	25.7	<sup>(2)</sup>	-.5	11.5	11.2	9.4
1981.....	34.0	33.1	29.7	29.7	4.3	3.4	15.9	14.6	18.3

<sup>1</sup> Includes general fund contributions.

<sup>2</sup> Less than \$0.05 billion.

*S. 2607 (Senator Haskell).*—S. 2607 would provide for a tax credit equal to 10 percent of the social security and railroad retirement tax liabilities of employers and self-employed individuals. The credit would be refundable and, in the case of nonprofit organizations and State and local governments, a payment in lieu of the tax credit would be made. The bill does not provide any credit against the employee share of social security taxes. The bill would be effective for taxable years after 1977. The calendar 1979 revenue reduction under this bill would be approximately \$6 billion.

*S. 2741 (Senator Domenici).*—S. 2741 would provide for a refundable tax credit to employers, employees, and self-employed persons. The amount of the credit would be equal to the increase in social security tax liability over the amount of liability which would have existed if the social security tax rates (but not the tax base) had been frozen at the 1977 levels (5.85 percent for employers and employees, each, and 7.9 percent for self-employed persons). For calendar year 1979, this bill would result in a revenue reduction of approximately \$6 billion.



*S. 2746 (Senator Hatfield of Montana).*—The bill S. 2746 would roll back the present 6.05 percent social security tax rate to the 5.85 level which was in effect in 1977. That 5.85 percent rate would remain in effect permanently thereafter. The revenues generated by the 5.85 percent tax would, however, be augmented by General Treasury funds so as to provide the same total income to the trust funds as they would receive under present law. (The bill also would roll back the self-employment tax rate to the 7.9 percent level in effect in 1977 and make up the difference by general transfers to the trust funds.) The bill does not modify the tax base provisions of present law. Under S. 2746, which is effective for years after 1977 the following amounts of general revenues would be substituted for payroll tax revenues:

[In billions]			
Calendar year:	Amount	Calendar year—Con.	Amount
1978.....	\$3.3	1983.....	\$24.9
1979.....	5.5	1984.....	26.6
1980.....	6.3	1985.....	39.0
1981.....	19.0	1986.....	45.8
1982.....	23.1	1987.....	49.2

(The fiscal year 1979 general revenue fund transfer would be \$5.0 billion.)

*S. 2808 (Senator Dole).*—S. 2808 would provide a refundable income tax credit equal to 20 percent of employee and self-employed (but not employer) social security and railroad retirement taxes effective for taxable years after 1977. The bill would result in an estimated revenue reduction of approximately \$12 billion in calendar 1979.

*S. 2812 (Senator Danforth).*—S. 2812 is generally similar to S. 2808 except that it provides for a 10-percent rather than a 20-percent credit and would be effective for years after 1978. The credit would be refundable and would apply to employee and self-employed (but not employer) social security and railroad retirement taxes.

