RESERVES UNDER FEDERAL OLD-AGE BENEFIT PLAN—SOCIAL SECURITY ACT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-FIFTH CONGRESS

FIRST SESSION

ON

S. Con. Res. 4

A CONCURRENT RESOLUTION CALLING FOR PLANS AND RECOMMENDATIONS FOR THE AMENDMENT OF CERTAIN PROVISIONS OF THE SOCIAL SECURITY ACT

FEBRUARY 22, 1937

Printed for the use of the Committee on Finance

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1937

126596

COMMITTEE ON FINANCE

PAT HARRISON, Mississippi, *Chairman*

WILLIAM H. KING, Utah
WALTER F. GEORGE, Georgia
DAVID I. WALSH, Massachusetts
ALBEN W. BARKLEY, Kentucky
TOM CONNALLY, Texas
JOSIAH W. BAILEY, North Carolina
BENNETT CHAMP CLARK, Missouri
HARRY FLOOD BYRD, Virginia
AUGUSTINE LONERGAN, Connecticut
HUGO L. BLACK, Alabama
PETER G. GERRY, Rhode Island
JOSEPH F. GUFFEY, Pennsylvania
ROBERT J. BULKLEY, Ohio
PRENTISS M. BROWN, Michigan
CLYDE L. HERRING, Iowa

ROBERT M. LA FOLLETTE, JR., Wisconsin
ARTHUR CAPPER, Kansas
ARTHUR H. VANDENBERG, Michigan
JOHN G. TOWNSEND, JR., Delaware
JAMES J. DAVIS, Pennsylvania

FELTON M. JOHNSTON, *Clerk*

RESERVES UNDER FEDERAL OLD-AGE BENEFIT PLAN—SOCIAL SECURITY ACT

MONDAY, FEBRUARY 22, 1937

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

The committee met in executive session, pursuant to call, at 10 a. m., in room 312 Senate Office Building, Senator Pat Harrison (chairman) presiding.

Present: A. J. Altmeyer Chairman, Social Security Board; Murray W. Latimer, member of the Social Security Board; Frank Bane, Executive Director, Social Security Board; John J. Corson, Assistant Director, Social Security Board; W. R. Williamson, Chief Actuary, Social Security Board; L. J. Calhoun, Assistant General Counsel, Social Security Board.

The CHAIRMAN. The committee meets this morning to consider primarily Senate Concurrent Resolution No. 4, introduced by Mr. Vandenberg, and then probably some of the other members will wish to ask some questions with reference to the other features of the Social Security Act. At this point I will insert in the record Senate Concurrent Resolution No. 4, as follows:

[S. Con. Res. 4, 75th Cong., 1st sess.]

Whereas Congress has adopted the Social Security Act to insure greater economic security for certain groups against the hazards of old age, unemployment, and other disabilities, and these objectives meet with common approval; and

Whereas there are certain major defects in the Act which, if uncorrected, will impede the full attainment of these objectives; and

Whereas the operation of the contributory old-age pension plan upon a so-called full-reserve basis (totaling $47,000,000,000 by 1980) needlessly creates a fiscal and economic menace, and needlessly reduces the average pension payable in 1942 to less than $20 per month (compared with an estimated $46 per month in 1980), thereby needlessly penalizing both the pensioner and the youth of the land who must make up the difference from their private funds in supporting their elders; and

Whereas the full reserve plan makes it necessary to increase from 2 per centum to 6 per centum in twelve years the supporting pay-roll taxes paid equally by employer and employee, with the result that the lowest income groups of American labor are taxed for national debt retirement (through Government bonds acquired for reserve account) instead of the traditional debt-retirement method of imposing taxes on those best able to pay; and

Whereas it is now generally recognized that this so-called reserve plan is unnecessary in a compulsory, tax-supported system; and

Whereas the contributory old-age pension plan discriminates against large groups of citizens, including farm labor, domestic servants, and the self-employed; and

Whereas the Social Security Board has a large research staff of upwards of one hundred and forty members, with annual appropriations approximating $400,000, which is available to develop prompt studies to correct these situations: Therefore be it

Resolved by the Senate (the House of Representatives concurring), That the Social Security Board is directed to report to Congress not later than May 1, 1937, the necessary plans, with its recommendations thereon, to abandon the full reserve system in respect to contributory old-age pensions, and—

(1) To increase pensions to those retiring within the next ten to twenty years, without, however, increasing pensions for those retiring in later years, and to commence payment of pensions to those retiring in 1939 instead of 1942; and to provide that pay-roll taxes (equally divided between employer and employee) remain at the present level of 2 per centum for at least five years and thereafter until Congress finds an increase necessary to meet requirements and maintain a reasonable contingency reserve, thus avoiding the early and arbitrary increase in these taxes to 6 per centum within twelve years;

(2) Alternatively, to leave benefit payments as now provided by law and to provide that pay-roll taxes (equally divided between employer and employee) shall remain at the present level of 2 per centum for at least ten years and thereafter until Congress finds an increase necessary to meet requirements and maintain a reasonable contingency reserve;

(3) To provide for the extension of the contributory, old-age pension system to large groups, such as domestic servants and farmers, now excluded from the benefits of the Act, and to provide the simplifications necessary to make this possible.

Who, from the membership of the Board, will give us some information with reference to this concurrent resolution? I might say that I submitted the resolution to the Board when it was introduced, and I understand that a letter has been prepared for transmittal to the committee. I do not think we have received that letter as yet. It had to go through other channels, probably.

Mr. ALTMEYER. Yes. I have the letter with me and I would like to submit it at this time.

The CHAIRMAN. Suppose you just read the letter, Mr. Altmeyer, to the committee.

STATEMENT OF HON. A. J. ALTMEYER, CHAIRMAN, SOCIAL SECURITY BOARD

Mr. ALTMEYER (reading):

We are in receipt of your letter of February 2, relative to Senate Concurrent Resolution 4. While the introductory paragraph of this resolution refers to the "hazards of old age, unemployment, and other disabilities", it deals entirely with the Federal old-age benefits plan. As regards the Federal old-age benefits plan, it deals only with certain aspects thereof.

In substance, the resolution directs the Social Security Board to report to Congress either a plan to start the payment of Federal old-age benefits sooner and in more liberal amounts during the next 10 to 20 years—without, however, increasing benefits for those retiring in later years—or a plan to leave benefit payments as now provided, but to reduce pay-roll taxes. The resolution also directs the Social Security Board to report a plan to extend the coverage of the Federal old-age benefits plan.

Inasmuch as the resolution is specifically related only to the Federal old-age benefits plan, the Board assumes it is desired that the Board's comments be limited to that phase of the Social Security program. These comments are as follows:

1. Every worker, no matter how young he is when he enters taxable employment nor how much he is paid, will always receive in benefits more than he has paid in taxes. Moreover, the monthly benefit payable will always be more than any worker could purchase from a private insurance company at present rates with the amount of money which he will have paid in taxes. It is true that a larger proportion of the employer's tax which is levied upon the total pay roll

may be considered as offsetting the payment of benefits to workers now nearing retirement. This is also true of all private-pension plans and of all Government retirement plans.

2. Under any old-age retirement plan like the plan established by the Social Security Act which expects to be self-supporting, unless funds are collected during the early years over and above the amounts payable in benefits each year, eventual financial provision—in the case of the Social Security Act, eventual tax rates—will have to be increased radically. This is because the number drawing pensions starts at zero and increases indefinitely, both because of a steady gain in the proportion of the aged qualifying for benefits and because of the gain in the total number and proportion of the aged. Moreover, under an old-age retirement system providing pensions bearing some proportion to past earnings, the average pension payable to those retiring in successive years will increase each year for an indefinite period. Thus, under the present Federal old-age benefit plan it is thought that the total amount of monthly benefits payable each year will increase up to a figure of at least $3,000,000,000 in 1980.

Senator KING. That is, that amount will be required to be paid out?

Mr. ALTMEYER. Yes, sir.

Senator KING. $3,000,000,000?

Mr. ALTMEYER. Yes, sir; in 1980.

Senator KING. Of course, you will not have that amount in the fund.

Mr. ALTMEYER. Oh, yes, much more, we hope [continuing]:

3. The Government would have to levy approximately 5 percent on pay rolls from the very beginning if it wished to fix a rate that apparently would offset, without change for a considerable period into the future, the cost of benefits as they come due without recourse to any other funds except sums collected to pay interest upon the accumulated reserve at the rate of 3 percent. Under the present plan the equivalent of this 5-percent rate is presumably present in the present 2-percent tax rate which increases triennially by 1 percent until the maximum of 6 percent is reached in 1949. To counteract the inadequacy which would be present in early monthly old-age benefits, were they based upon a constant relationship to earnings, a higher rate of benefits is allowed for the early wages than later wages. If this more liberal allowance for early wages were recognized as it would be in group annuity insurance as "accruing liability" the present value of future benefits arising from current wage payments would exceed the expected tax collections under title VIII over a long period of time. It is estimated that during the first year of operation alone this accruing liability would amount to $5,000,000,000 against probable tax collections of $600,000,000. By 1946 this accruing liability would probably amount to $25,000,000,000 whereas it is anticipated that the residue of tax collections over benefit payments and administrative expenses, with interest at 3 percent compounded annually, probably will amount to but $9,000,000,000, an apparent deficiency of $16,000,000,000.

Senator KING. Who is to meet that?

Mr. ALTMEYER. That is met eventually, Senator, by the increase in the rates of taxes now provided in the act.

The CHAIRMAN. That is why you let the rates rise throughout the years.

Mr. ALTMEYER. Yes, Senator. [Continuing reading:]

4. The present scale of taxes was deemed to be sufficiently large so that for a considerable period into the future the sum of the expected tax collections less administrative costs plus interest on the accumulated funds would be substantially in excess of the total benefit payments. By 1980, according to estimates of the progress of the program there might be a fund of $17,000,000,000 which would be about two-thirds of the reserve which a private insurance company probably would expect to accumulate. If no interest-bearing reserve is accumulated and no other revenue is provided the pay-roll taxes required would probably have to be increased to 10 percent by 1980.

5. One of the assumptions entering into the estimated cost has been that before 1980 a stable population would be reached, a rather dubious assumption.

Many other assumptions entering into these cost estimates are extremely crude and have not been made with any belief that they can possibly foretell what future benefits will be in a time so far removed from the present. This somewhat arbitrary estimate of a maximum reserve of $47,000,000,000 may be considered as representing $14,000,000,000 collected in pay-roll taxes in excess of cash benefits already paid, the balance of $33,000,000,000 representing interest and compound interest thereon.

6. Had the interest on the reserve account been compounded at 2½ percent (about the present average rate of return on Federal obligations) instead of 3 percent as provided in the law, the amount of compound interest contributed to the reserve would be $25,000,000,000 instead of $33,000,000,000. The excess of $8,000,000,000 through estimating 3 percent instead of 2½ percent could be considered as a Government subsidy.

Senator KING. That $8,000,000,000 Government subsidy, how do you calculate that?

Mr. ALTMEYER. If we calculated the interest at the present rate of 2½ percent instead of 3 percent provided in the law we would have $8,000,000,000 less collected in interest. So that since we calculated it at 3 percent, assuming the average rate stayed at 2½ percent, one might consider the excess $8,000,000,000 as a Government subsidy.

Senator KING. Supposing the Government does not pay it, then what?

Mr. ALTMEYER. My next sentence answers that:

Similarly, if it is recognized that a conceivable method would call for no interest payments such a Government subsidy would be $33,000,000,000.

7. It is possible to develop a plan to start Federal old-age benefits sooner and to pay such benefits in more liberal amounts during the early years without increasing benefits for those retiring in later years.

Senator KING. That would mean increased subsidy by the Federal Government, would it not?

Senator VANDENBERG. Not necessarily.

Mr. ALTMEYER. It would mean either increased pay-roll taxes or increased general taxes.

Senator VANDENBERG. We will come to that later.

Mr. ALTMEYER (reading):

8. It is also possible to develop a schedule of reduced pay-roll taxes. However, the present tax rate, which the resolution indicates is satisfactory, is not increased for 3 years, so this is not an immediate problem.

9. Reduction in tax rates or increase in benefit rates under the Federal old-age-benefits system would reduce the reserve below the amount estimated to be necessary to keep the system on a self-sustaining basis. However, the advantage of the self-sustaining principle is lessened as the proportion of the gainfully occupied persons protected by the system is increased. At present that proportion is about 50 percent and most of the cost of the benefits is met by the beneficiaries, whereas the abandonment of the self-sustaining principle would transfer an undue proportion of this cost to the 50 percent not covered by the system.

10. The problem of extending the coverage of the Federal old-age-benefits system is largely a problem of developing appropriate administrative processes (particularly tax-collection techniques) in the case of such large excluded groups as domestic servants and farmers. Moreover, the type of legislation and the kind of administrative procedures to be developed depend to a considerable extent upon the definition of Federal powers by the courts. Since very little administrative experience is yet available and the courts have not yet passed upon the constitutionality of the Federal powers involved, if legislative action is taken at this time to extend coverage to groups now excluded, such as domestic servants and farmers, such action should be made effective not earlier than January 1, 1939.

11. It is highly desirable that, as soon as practicable, provision be made for paying monthly benefits to those permanently disabled and to survivors of

beneficiaries under the Federal old-age-benefits plan. However, some of the problems involved require extended study and consideration.

In accordance with the duty placed upon it by section 702 of the Social Security Act, the Board has been studying the problems touched upon by this resolution as well as a number of other problems intimately related thereto. Some information has already been assembled and more will be assembled as quickly as possible.

The Board will be glad to be of as much service as possible to the committee.

Senator VANDENBERG. Now, Mr. Altmeyer, let me follow through some of these things to see how the full reserve system works. Of course, I am dealing exclusively, as your letter indicates, with the contributary old-age-pension problem. Now, your pay-roll taxes start this year on the 2-percent basis divided equally, do they not, between employer and employee?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. When do the contributory old-age benefits start in 1942?

Mr. ALTMEYER. The monthly benefits start January 1, 1942.

Senator VANDENBERG. The pay-roll tax will be 3 percent in 1940; is that right?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. And 4 percent in 1943?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. So the whole pay-roll-tax-fund proceeds will accumulate until 1943 without disbursement; is that correct?

Mr. ALTMEYER. No, sir.

Senator VANDENBERG. Except for administrative expenses?

Mr. ALTMEYER. No, sir.

Senator VANDENBERG. Tell me about that.

Mr. ALTMEYER. There are two other types of benefits. If a man becomes 65 years of age before having earned wages in each of 5 years since December 31, 1936, he will receive a lump sum of 3½ percent on his wages during that time. Also, if a person dies before 1942 his estate will get 3½ percent of his total wages.

Senator VANDENBERG. But speaking generally, the bulk of the collection up to 1942 goes under the reserve?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. Each year after 1942 you collect more in taxes than you pay out in benefits, do you not, in order to build up the continuing reserve?

Mr. ALTMEYER. That is right.

Senator VANDENBERG. And this excess of collections which goes into a reserve, finally that is a reserve of $47,000,000,000 in 1980?

Mr. ALTMEYER. The bulk of the amount appropriated will be accumulated in the reserve.

Senator VANDENBERG. All right. Now, let us go back again. How much in pay-roll taxes will you collect this year, estimated?

Mr. ALTMEYER. A little bit over $600,000,000.

Senator VANDENBERG. Now, that $600,000,000——

Mr. ALTMEYER (interrupting). Pardon me. That is the calendar year, not the fiscal year.

Senator VANDENBERG. That is right; the calendar year. Now, that $600,000,000 goes into the general fund of the Treasury, does it not, in the first instance?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. Without any earmarks whatever?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. How does it get out of the Treasury and over into the Social Security fund; by an act of appropriation?

Mr. ALTMEYER. By an act of appropriation. There has already been appropriated in advance of the collections $255,000,000.

Senator VANDENBERG. Now, is that for the whole year?

Mr. ALTMEYER. That is for the present fiscal year ending June 30, 1937.

Senator VANDENBERG. How much will it be for the calendar year? How much do you understand they are asking to have appropriated?

Mr. ALTMEYER. $540,000,000 for the fiscal year 1938.

Senator VANDENBERG. In other words, you expect to appropriate $540,000,000 out of a collection of $600,000,000?

Mr. ALTMEYER. Yes. There is going to be a difference for administrative expenses.

Senator VANDENBERG. What happens to the other $60,000,000 that is collected from the pay-roll taxes?

Mr. ALTMEYER. It stays in the general fund. Money must, however, be appropriated out of the general fund for administrative expenses, both for the Social Security Board and the Treasury Department.

Senator VANDENBERG. In other words, all of the pay-roll taxes will not necessarily go into the Social Security set-up?

Mr. ALTMEYER. You mean into this reserve?

Senator VANDENBERG. I mean you are collecting a certain amount of money on pay rolls for social-security purposes. Those funds go into the Treasury without being earmarked, and they get out of the Treasury by an act of appropriation. If you appropriate less than you take in, the difference goes into the General Government operating deficit, does it not?

Mr. ALTMEYER. No, sir.

Senator VANDENBERG. What does happen to the difference?

Mr. ALTMEYER. All except amounts equivalent to the administrative expenses to be incurred by the Social Security Board and the Treasury will probably be appropriated to the reserve.

Now, if Congress did not appropriate all of that difference then, of course, you are correct, but in view of the fact that Congress has already, in advance of actual tax collections, made the appropriation which it estimates will about cover the balance of the pay-roll taxes, after administrative expenses are deducted, it is reasonable to suppose that Congress will do so in the future.

Senator VANDENBERG. All right. It is entirely up to Congress?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. In other words, the integrity of the Social Security Act and the integrity of the use of these pay-roll-tax collections will always be at the mercy of Congress, from year to year?

Mr. ALTMEYER. I would say its integrity will be just as strong as our Government and of the Congress.

Senator VANDENBERG. That is right. How much of this $560,000,000 will be reserved that you are going to get this year?

Mr. ALTMEYER. You are speaking of the calendar year now?

Senator VANDENBERG. Yes; the calendar year.

Mr. ALTMEYER. The estimates have not been made on the calendar-year basis, Senator; they have been made on the fiscal-year basis. I am just guessing.

Senator VANDENBERG. Well, approximations will do.

Mr. ALTMEYER. It is estimated that there will be appropriated to the reserve during this present fiscal year $540,000,000.

Senator VANDENBERG. Now, what are you going to do with that—invest it in Government bonds?

Mr. ALTMEYER. That is a Treasury function; it is not a function of the Social Security Board.

Senator VANDENBERG. Do not they have to invest it in Government bonds, under the terms of the act?

Mr. ALTMEYER. They have to invest in one of two types of Government obligations; yes, sir.

Senator VANDENBERG. They have to draw 3 percent; do they not?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. Where are they going to get these 3-percent Government securities, $540,000,000 of them at 3 percent this year?

Mr. ALTMEYER. You will have to ask the Treasury. That is not our function. I do not think they anticipate any difficulty, though.

Senator VANDENBERG. Will they issue special obligations? Hasn't there been some discussion of how this is going to be done?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. It is entirely a Treasury function?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. You did not discuss it with them at all?

Mr. ALTMEYER. Not formally.

Senator VANDENBERG. We will have to ask the Treasury about that?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. And the Treasury is confronted with the problem this year of getting $511,000,000 United States securities on a 3-percent-yield basis, under the terms of the act?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. And you have not any information as to where they could get it, or how they could do it?

Mr. ALTMEYER. Perhaps I misunderstood your question. I do not mean to say they will have to discover outstanding Government obligations having a net yield of 3 percent. Of course, that is impossible, because there are not outstanding Government obligations bearing that net yield.

Senator VANDENBERG. Exactly. So what would you do?

Mr. ALTMEYER. I do not know what they will do.

Senator VANDENBERG. There is not but one thing they can do, is there? They have got to issue special securities for the benefit of this fund on the 3-percent basis, do they not, and put them in the fund?

Mr. ALTMEYER. Yes; I imagine so.

Senator VANDENBERG. So that that difference between the 3 percent and the going rate of interest on Government bonds becomes a direct subsidy to the fund, as far as the general tax burden is concerned?

Mr. ALTMEYER. Yes, sir. I pointed that out in my letter.

Senator VANDENBERG. All right. Now, when we get up to the climax with $47,000,000,000 in the reserve—let us call it 50 billion for round numbers because it is easier to figure, and what is $3,000,-

000,000 between friends when we are up in this astronomical bracket—now, we have got $50,000,000,000 in the reserve fund; it has been invested in 3-percent Government securities; of course, you have got to have a national debt of $50,000,000,000, in the first place, in order to accommodate the plan, haven't you?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. Sure. So in 1980 we have got this 50-billion reserve at 3 percent, that would yield a billion and a half dollars, and suppose the billion and a half dollars, as you pointed out in your letter, is a necessary contribution at that point to supplement the pay-roll taxes to pay the necessary benefits——

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. All right. Say in 1980 Congress has got to tax the American people a billion and a half dollars to pay the interest on the bonds that are in your reserve fund——

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. All right. What is the difference between an appropriation of a billion and a half dollars to pay the interest on the bonds so that you can get the proceeds, or a direct appropriation of a billion and a half dollars by act of Congress?

Mr. ALTMEYER. No difference.

Senator VANDENBERG. Then what is the use of all this accumulation of $50,000,000,000, and all the grief and burden that has gone with it?

Mr. ALTMEYER. The significant thing is what happens between now and 1980. When you reach 1980 as you yourself state, whether Congress appropriates a billion and a half dollars for interest or whether it appropriates a billion and a half dollars for deficit makes no difference. Congress has to appropriate a billion and a half dollars. But in the meantime Congress has been collecting more in taxes, and the important thing to be decided is what effect does that collection of those taxes in the interval have upon the entire tax structure and entire financial operations of the Federal Government.

Senator VANDENBERG. I may be terribly dense about it, but I am totally unable to see how there is any more confusion in the tax situation, or in the heavier burden upon the taxpayer in making a branch, direct-subsidy appropriation into the fund instead of detouring through a reserve.

Mr. ALTMEYER. Well, it makes this difference, Senator, that in the one case, if you build up a reserve your pay-roll taxes will be higher during the interval, so that the beneficiaries of the plan will be taxed sufficiently to cover their future benefits; whereas, under the pay-as-you-go system, the potential beneficiaries under the plan are not taxed sufficiently to cover their future benefits, so that the general taxpayer will be required to finance their benefits.

Senator VANDENBERG. Cannot you dramatize this for me in the fiscal 1980 bracket? Now, in 1980, when you have got your $50,000,000,000 reserve—of course, I, for the life of me, cannot tell how it is going to be invested or how it is ever going to be kept sacred in the face of the transient political vicissitudes of the Congress of the United States over a period of three-quarters of a century—but just assuming that God is good and virtue runs, and you still have got your $50,000,000,000, I cannot understand why it costs any more, and you see that it does not, to pay the billion and a half in a straight subsidy rather than the interest on the reserve. That does not make any difference. You say so yourself.

Mr. ALTMEYER. In 1980.

Senator VANDENBERG. In 1980. What is the difference in 1979, when it is a little less than that?

Mr. ALTMEYER. Well, because in all the intervening years you have been collecting less in pay-roll taxes than is necessary to pay the benefits under the Federal old-age benefit plan.

Senator VANDENBERG. Yes.

Mr. ALTMEYER. So that when you reach 1980 it is true you have the billion and a half to meet, either way, but now, under the one plan, in the meantime you have been collecting sufficient taxes which it is estimated will cover the benefit for all time in the future. Under your system you will not have collected enough pay-roll taxes to do that.

Putting it in another way, in one case you will be getting in more current revenue than you will be getting in the other case. Now, the real question is: What will Congress do with that greater current revenue?

Senator VANDENBERG. Well, if you had a frank subsidy from the Treasury each intervening year——

Mr. ALTMEYER (interrupting). Then the general taxpayer would be paying instead of the people who are paying the pay-roll taxes.

Senator VANDENBERG. But the general taxpayer each intervening year is paying the interest on these bonds that you are accumulating in the reserve.

Mr. ALTMEYER. Yes; but the whole $47,000,000,000 is not represented by interest.

Senator TOWNSEND. No; but it is most of it.

Mr. ALTMEYER. $33,000,000,000 out of $47,000,000,000 is interest.

Senator TOWNSEND. That is right, and the general taxpayer pays that.

Mr. ALTMEYER. Yes; but he has gotten the value for his money, so to speak.

Senator VANDENBERG. If the pay-roll taxes are just the same during all this period?

Mr. ALTMEYER. No, Senator. That is just the point, under the pay-as-you-go plan.

Senator VANDENBERG. Never mind the alternative. I am just trying to find out how this plan works.

Mr. ALTMEYER. Under the present plan the tax rates vary from a combined beginning rate of 2 percent to the maximum of 6 percent.

Senator VANDENBERG. Yes. Suppose we leave them just as they are, in the course of the intervening period you have raised $33,000,000,000 by general taxation to supplement these pay-roll taxes, haven't you?

Mr. ALTMEYER. You do not necessarily raise that by general taxation.

Senator VANDENBERG. Well, if you get it from interest on reserves, the only way you can collect your interest is out of taxation?

Mr. ALTMEYER. You do not necessarily collect the cash of $47,000,000,000 and put it out at Fort Knox; you issue Government obligations, it is true, to represent the accumulated interest, but that does not necessarily mean you have levied general taxes.

Senator VANDENBERG. You mean you might pay it with I O U's?

Mr. ALTMEYER. Well, if you call the Government obligations I O U's, that is correct.

Senator HERRING. Isn't that a large part of the earnings on the money? That is not the tax, that is earnings upon the money.

Senator VANDENBERG. That is the point of the whole thing. It is earnings on the money.

Senator HERRING. Yes.

Senator VANDENBERG. But the earnings on the money have to be a tax on the people in order to get them into the interest fund.

Senator HERRING. But they get the money put out during that period.

Senator VANDENBERG. Who gets it?

Senator HERRING. Whoever borrows the money.

Senator VANDENBERG. The Government gets it, but the taxpayer has had to pay the interest on the bonds.

Senator HERRING. Sure, sure.

Senator VANDENBERG. There isn't any fancy system under which you can get $33,000,000,000 without taking out the same amount.

Senator HERRING. But the Government needed the money and had to have it.

Senator VANDENBERG. That is right.

Senator HERRING. It is presumed that the Government got value received.

Senator DAVIS. Where will they invest it, if they are not able to invest it in Government bonds?

Mr. ALTMEYER. They can invest it in either negotiable or nonnegotiable Government obligations.

Senator VANDENBERG. At 3 percent, and nothing else.

Senator HERRING. Nothing else.

Mr. ALTMEYER. That is right.

Senator BYRD. The present Government debt is 35 billion?

Mr. ALTMEYER. That is right.

Senator BYRD. You said it will increase to 50 billion dollars?

Mr. ALTMEYER. It will be increased to 47 billion dollars, the estimated reserve accumulation.

Senator BYRD. Instead of having a reduced Government debt, we can look forward to an increased Government debt?

Mr. ALTMEYER. You have to distinguish between a Government debt outstanding in the hands of private individuals and a Government debt represented by the obligations placed in the old-age reserve account.

Senator BYRD. You just stated now the Government can hire the money. In hiring the money they can use the money naturally, and get the benefit of it. In that case we will have an outstanding Government debt of approximately $50,000,000,000.

Mr. ALTMEYER. The Government could retire, conceivably, every single cent of the $35,000,000,000.

Senator BYRD. Even then there would be $15,000,000,000?

Mr. ALTMEYER. Yes; but that might be represented in nonnegotiable obligations in the old-age reserve account.

Senator BYRD. That would be a straight subsidy.

Mr. ALTMEYER. No, sir.

Senator BYRD. If they did not use the money, it would certainly be a subsidy.

Mr. ALTMEYER. They might use it for public purposes of one kind or another.

Senator BYRD. Then you would have a public debt of $50,000,000,000. In other words, if they borrowed the money from this fund and used it to construct public works, or add it to the general debt of the Government, then you have increased your debt to $50,000,000,000.

Mr. ALTMEYER. There is no question about that.

Senator BYRD. Then there is not going to be any reduction in debt, but there is going to be an increase, is that right?

Mr. ALTMEYER. You have to distinguish between the two kinds of Government debt. The one that we have been familiar with in the past is the Government debt in the hands of private individuals, and the other is a Government debt in the hands of this old-age reserve account.

Senator BYRD. Mr. Altmeyer, you have got to take one end or the other of this argument. You have got to assume the Government gets $50,000,000,000 to retire its obligations—the subsidy in that event would only be the difference between the rate of interest that the Government would have to pay to the public and the 3 percent that they would have to pay to the fund—you have either got to take that end of it or you have got to assume the Government has got a debt of $50,000,000,000, otherwise a part of it will be straight subsidy.

Mr. ALTMEYER. I do not deny there will be a debt of $50,000,000,000. It seems to me, however, that the Government debt is of a different character than the Government debt to which we have been accustomed in the past.

Senator BYRD. In other words, the Government owns this reserve fund and the Government holds the money, and therefore you think it is a different character of debt?

Mr. ALTMEYER. Yes, Senator; I do.

Senator BYRD. I suppose it owes a moral obligation to that fund, so I think it is just as much a debt as any debt it has got to meet.

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. If it is not just as much of a debt then it is dishonest, immoral, and a subterfuge.

Mr. ALTMEYER. That is right.

Senator VANDENBERG. And it is even more burdensome than the ordinary national debt we now speak of, because it has to yield 3 percent.

Senator BYRD. Suppose you had a depression in 1945, a great unemployment occurs, as it did in this recent depression, would not that diminish this fund that you have accumulated?

Mr. ALTMEYER. Somewhat; yes, sir.

Senator BYRD. Have you taken that into consideration?

Mr. ALTMEYER. Well, Senator, the various unknown factors that are likely to arise between now and 1980 are so numerous that this figure of $47,000,000,000 which has been mentioned so often is probably subject to a margin of error of at least 25 percent.

Now, you have mentioned the cyclical changes that are likely to occur between now and 1980. There are many others.

Senator BYRD. After what date, under your estimate, before payments from the fund exceeds the receipts that come into the fund, including the 3-percent interest on the money invested in Government bonds?

Mr. ALTMEYER. Never. Under the reserve plan they never do. That is the point.

Senator BYRD. Well, do you anticipate steady prosperity from now to 1980?

Mr. ALTMEYER. No, Senator.

Senator BYRD. Well, you must have made some estimate as to when the unemployment would increase at certain periods. We certainly have depressions from time to time.

Mr. ALTMEYER. Yes; but cyclical unemployment between now and 1980 is much less important a factor than a change in the mortality, average wages, and the age and sex composition of our working people. If you want to go into the actuarial end of it, I have two actuaries here who are more competent than I am to discuss the question.

Senator BYRD. What I mean is the unemployment feature of it. I just wanted to know when you thought the unemployment would increase, for example, as compared to today. Have you assumed that there is going to be a steady amount of unemployment from now to 1980? Because, if you have a large unemployment, naturally this fund is going to be drawn upon very heavily.

Mr. ALTMEYER. In order to be conservative, it was assumed that the rate of unemployment compared with the employable population would be about as it was in 1930, on the average, throughout the entire period.

Senator BYRD. What percent would that be?

Mr. ALTMEYER. About 10 percent.

Senator BYRD. In other words, you estimated more or less a permanent unemployment equivalent to 10 percent of those that were employable in 1930?

Mr. ALTMEYER. Yes, Senator.

Senator BYRD. How many would that be in numbers?

Mr. ALTMEYER. About 2½ million.

Senator BYRD. I understood we had between 40 and 50 million employable people in the country.

Mr. ALTMEYER. We are just mentioning the covered group?

Senator BYRD. You do not include the farmers?

Mr. ALTMEYER. No, sir. The covered group in 1930 was about 26 million. Ten percent of that would be about two million and a half.

Senator BYRD. You expect the unemployment to be more or less on a steady basis of 2½ million in these productive classes?

Mr. ALTMEYER. Yes, sir; possibly so.

Senator BYRD. Have you given any consideration to including farmers and those that are not exempted?

Mr. ALTMEYER. Yes, sir.

Senator BYRD. What do you plan with respect to that?

Mr. ALTMEYER. The difficulty there, Senator, is to develop appropriate administrative procedures. We haven't gotten far enough along in our research so we are confident we can make worth-while suggestions as to the extension of coverage to this excluded group.

Senator BYRD. Have you investigated it?

Mr. ALTMEYER. Yes.

Senator BYRD. Is it likely you will make some recommendation including the exempted classes?

Mr. ALTMEYER. It is very doubtful whether we could make worth-while recommendations this soon, at this session of Congress.

Senator BYRD. I do not mean this session, but have you got in mind making recommendations as to the farmers and those that are now exempted?

Mr. ALTMEYER. Yes, Senator.

Senator BYRD. About when?

Mr. ALTMEYER. We ought to be able to make worth-while suggestions within a year or 2 years from now.

Senator BYRD. You think they should be included?

Mr. ALTMEYER. Yes; definitely so.

The CHAIRMAN. Have you any expression to give this morning about the private pension systems continuing?

Senator VANDENBERG. Before we get into that, before we leave the thing I am chiefly interested in, if you do not mind——

The CHAIRMAN. Yes.

Senator VANDENBERG. It seems to me that the crux of the whole problem is whether or not we are to continue on that full reserve basis or whether we are going on the pay-as-you-go basis with the contingent reserve, and it is all dramatized in this $50,000,000,000 atrocity that I have been discussing.

Senator GERRY. Atrocity?

Senator VANDENBERG. Yes. Now, Mr. Altmeyer, has not Sweden swung over from the full reserve to the pay-as-you-go basis?

Mr. ALTMEYER. Are you interested in my discussing Sweden?

Senator VANDENBERG. I am very much interested in knowing whether I am correctly informed that Sweden has swung over, and Sweden is one of the far-looking countries with substantial experience.

Mr. ALTMEYER. I must tell you, Senator, just exactly what sort of a plan Sweden has, so you can determine whether it is comparable with our plan or not.

Senator VANDENBERG. I do not want to take the committee's time to go into the whole thing.

Mr. ALTMEYER. It will only take me a minute.

Senator VANDENBERG. I was going to suggest that you put a memorandum in the record on the Swedish parallel.

Mr. ALTMEYER. Now, Sweden has a revised plan that went into effect on January 1 of this year. Sweden has a population of a little over 6,000,000, with about 4,000,000 insured persons. The plan that Sweden has put into effect provides very low benefits, but to a great proportion of the population. That is one distinction I would like to draw. By "small" I mean monthly pensions which vary from $1.62 to $3.76, if a person has $10.30 or more per month of other income. If a person has no other monthly income the monthly pension payable in Sweden ranges from $7.35 to $9.50. Moreover, there is comparatively little variation in the amount of pension paid.

Now, I also want to point out that Sweden has a means and a morals test in its system. If you want to compare Sweden with this country you probably should compare title I of the old-age assistance plan rather than title II, the Federal old-age benefit plan, which we have been discussing. First, because there is no tax on employers; second, because the amounts are so small; third, because they vary so little; fourth, because it involves the means test. The cost of paying benefits under title I is borne through general taxes levied by the Federal Government and by the respective States; whereas in Sweden the costs are raised by an income tax on beneficiaries and general taxes. Of course, title I is already on a pay-as-you-go system, and no one has ever suggested otherwise. In fact, in many of the States the amounts paid under State old-age assistance plans are much higher than in Sweden, and the property and income exemptions allowed to individuals much more liberal.

Senator VANDENBERG. Well, then, would you say there is no analogy between the Swedish and American systems?

Mr. ALTMEYER. No analogy. When we speak of Sweden going on a pay-as-you-go plan we are speaking of something that is not analogous.

Senator VANDENBERG. For the sake of argument, let us admit there is no analogy and let us turn to the proposition as to whether or not Sweden has switched from the full reserve to the pay-as-you-go.

Mr. ALTMEYER. My understanding is it has, but with this significant difference, that it has increased at the same time the contributions. The pay-as-you-go suggestion in this country is directed toward decreasing the rate of taxes.

Senator VANDENBERG. Now, I want to offer for the record, Mr. Chairman, a list of 60 of the leading presidents of life-insurance companies of the United States, from each one of whom I have a letter emphatically recommending the abandonment of the full reserves system in connection with our contributory old-age pensions and the substitution of the contingent reserve on a pay-as-you-go basis.

(The document referred to is as follows:)

Thomas A. Buckner, president, New York Life Insurance Co., New York, N. Y.

William H. Kingsley, president, Penn Mutual Life Insurance Co., Philadelphia, Pa.

Edward D. Duffield, president, Prudential Life Insurance Co., Newark, N. J.

M. B. Brainard, president, Aetna Life Insurance Co., Hartford, Conn.

M. J. Cleary, president, Northwestern Mutual Life Insurance Co., Milwaukee, Wis.

B. J. Perry, president, Massachusetts Mutual Life Insurance Co., Springfield, Mass.

Guy W. Cox, president, John Hancock Life Insurance Co., Boston, Mass.

L. E. Zacher, president, Travelers Insurance Co., Hartford, Conn.

Arthur F. Hall, president, Lincoln National Life Insurance Co., Fort Wayne, Ind.

John R. Hardin, president, Mutual Benefit Life Insurance Co., Newark, N. J.

George Willard Smith, president, New England Mutual Life Insurance Co., Boston, Mass.

Carl Hays, president, Guardian Life Insurance Co., New York, N. Y.

M. A. Linton, president, Provident Mutual Life Insurance Life Insurance Co., Philadelphia, Pa.

John C. Hill, president, Standard Life Insurance Co., Pittsburgh, Pa.

M. Clark Terrill, vice president, Phoenix Mutual Life Insurance Co., Hartford, Conn.

T. W. Appleby, president, Ohio National Life Insurance Co., Cincinnati, Ohio.

A. Carleton McKenney, vice president, Life Insurance Co. of Virginia, Richmond, Va.

Danforth E. Ball, president, Columbus Mutual Life Insurance Co., Columbus, Ohio.

Henry Moir, chairman, finance committee, United States Life Insurance Co., New York, N. Y.

Edwin A. Olson, president, Mutual Trust Life Insurance Co., Chicago, Ill.

A. A. Rydgren, president, Continental American Life Insurance Co., Wilmington, Del.

W. W. Putney, president, the Midwest Life Insurance Co., Lincoln, Nebr.

C. C. Criss, president, United Benefit Life Insurance Co., Omaha, Nebr.

W. G. Tallman, president, Great Western Insurance Co., Des Moines, Iowa.

W. P. Stevens, president, Scranton Life Insurance Co., Scranton, Pa.

Arthur E. German, president, Baltimore Life Insurance Co., Baltimore, Md.

John E. Reilly, president, Old Line Life Insurance Co., Milwaukee, Wis.

Clarence J. Daly, president, Capitol Life Insurance Co., Denver, Colo.

Ralph E. Lounsbury, president, Bankers' National Life Insurance Co., Montclair, N. J.

H. M. Merrian, president, Franklin Life Insurance Co., Springfield, Ill.

C. E. Little, president, Provident Life Insurance Co., Bismarck, N. Dak.

Walter L. Fallet, president, Fidelity Mutual Life Insurance Co., Philadelphia, Pa.

A. L. Key, chairman of board, Volunteer State Life Insurance Co., Chattanooga, Tenn.

W. L. Mood, Jr., president, American Life Insurance Co., Galveston, Tex.

James L. Loomis, president, Connecticut Mutual Life Insurance Co., Hartford, Conn.

A. O. Swink, president, Atlantic Life Insurance Co., Richmond, Va.

John V. Hanna, president, United Life Insurance Co., Concord, N. H.

Raymond F. Low, president, American Reserve Life Insurance Co., Omaha, Nebr.

H. G. Royer, president, Great Northern Life Insurance Co., Chicago, Ill.

Robert E. Sweeny, president, State Life Insurance Co., Indianapolis, Ind.

Cornelius A. Craig, chairman of the board, National Life Insurance Co., Nashville, Tenn.

F. B. Wilde, president, Connecticut General Life Insurance Co., Hartford, Conn.

L. J. Dougherty, president, Guaranty Life Insurance Co., Davenport, Iowa.

Crawford E. Ellis, president, Pan-American Life Insurance Co., New Orleans, La.

Charles A. Harrington, president, Massachusetts Protective Life Insurance Co., Worcester, Mass.

S. B. Coley, president, Durham Life Insurance Co., Raleigh, N. C.

Henry H. Kohn, president, Morris Plan Insurance Society, New York, N. Y.

J. J. Cadigan, president, New World Life Insurance Co., Seattle, Wash.

E. O. Burget, president, Peoples Life Insurance Co., Frankfort, Ind.

T. A. Phillips, president, Minnesota Mutual Life Insurance Co., St. Paul, Minn.

George W. Steinman, president, Midland Life Insurance Co., Columbus, Ohio.

Victor Ettienne, Jr., president, West Coast Life Insurance Co., San Francisco, Calif.

Chandler Bullock, president, State Mutual Life Insurance Co., Worcester, Mass.

R. B. Richardson, executive vice president, Montana Life Insurance Co., Helena, Mont.

W. T. Grant, president, Businessmen's Assurance Co., Kansas City, Kans.

C. F. O'Donnel, president, Southwestern Life Insurance Co., Dallas, Tex.

C. R. Beardman, president, Wisconsin National Life Insurance Co., Oshkosh, Wis.

C. W. Young, president, Monarch Life Insurance Co., Springfield, Mass.

E. C. Green, president, Pilot Life Insurance Co., Greensboro, N. C.

Clem E. Peters, president, Conservative Life Insurance Co., Wheeling, W. Va.

Senator VANDENBERG. I desire to insert in the record a joint statement by myself, Senator Townsend, and Representatives Reed and Jenkins, in explanation of Senate Concurrent Resolution 4.

JOINT STATEMENT OF EXPLANATION BY SENATORS VANDENBERG AND TOWNSEND AND REPRESENTATIVES REED AND JENKINS

We are completely sympathetic with the objectives of the Social Security Act. Any changes in it should be strengthening changes. It was passed hurriedly 1 year ago, and all informed persons agree that it needs substantial correction. We raise the basic point and ask for a report thereon, that most of its mistakes and weaknesses attach to the fact that its contributory old-age pensions are based on the full reserve system. We submit that such a reserve is unnecessary in a compulsory, tax-supported system; that its ultimate accumulation of a $47,000,000,000 reserve is a positive menace to free institutions and to sound finance and that it is a perpetual invitation to the maintenance of an extravagant public debt; that it will, in effect, transfer the burden of debt retirement from the shoulders of general taxpayers to the shoulders of the lowest income group of the country in the form of a gross income tax on labor; and that it involves a needlessly high pay-roll tax in the immediate years to come and a needless postponement of earlier and more adequate benefit payments.

Sweden, probably the most progressive country in the field of social legislation, furnishes strong evidence against the use of the principle of the reserve fund. After trying it for years, Sweden dropped it and is now on a pay-as-you-go basis.

There is no analogy between the need of private insurance companies for full reserves and the need of the Government system for full reserves. The former are at the mercy of uncertain and fluctuating revenues. The latter is compulsory and is guaranteed a continuous flow of revenues.

It seems desirable, therefore, to provide for the repeal of the full reserve plan and the substitution of a direct pay-as-you-go system with only a small contingent reserve.

This will achieve several healthful results. The progressively increasing pay-roll taxes in the present Social Security Act assessed on both employer and employee—2 percent to 1940, 3 percent to 1943, 4 percent to 1946, 5 percent to 1949, and 6 percent thereafter—are largely necessary only to build up the forty-seven billion of reserves. We are advised by competent authorities that with this latter monstrous burden curtailed, it will be possible for at least 5 years to rest on the present 2-percent tax and at the same time to improve social security under the act.

We believe, for example, that benefit payments can commence within a year or two instead of waiting until 1942, as the law now provides. We believe that increased benefit payments are possible for workers now in middle age who will, if existing law be not changed, receive only a pittance at the age of 65. Thus the average benefit payment in 1942 will be about $18 a month as against an average of $46 per month in 1980, unless the former is corrected, as we believe to be possible. This would not mean increased benefit payments to the younger workers of today when they are old. But it would mean that these younger workers will be relieved of a large part of the burden which otherwise would be imposed upon their private funds for the care of their elders.

We also ask the Social Security Board to formulate plans for the extension of the old-age benefit system to certain groups now excluded, such as agricultural workers and domestic servants. These groups now can receive old-age assistance only on the humiliating basis of a pauper test.

We submit these suggestions for the expert study of the Social Security Board, believing these objectives to be sustained by the best available experts in the field of social security and social insurance. The Board has a research staff of 150 experts and a research fund of about half a million dollars. It is equipped to explore all of these possibilities. We are asking Congress to authorize and direct the exploration.

The basic question is the reserve system. If it be deemed wise to leave benefit payments at existing levels, we are confident that the abandonment of needless and often menacing reserves would make it possible also to abandon increased pay-roll taxes on employer and employees for at least 10 years to come. The ultimate decision whether to increase benefits or to reduce pay-roll taxes for a longer period will be for Congress to make in the light of the facts that will be developed by this study. Either objective is infinitely worth while.

MEMORANDUM SUPPORTING RESOLUTION ON SOCIAL SECURITY

The Social Security Act provides for a plan of old-age benefits financed through the use of a so-called reserve account. Money collected by pay-roll taxes levied on both the employee and the employer is supposedly deposited in a reserve account. These taxes, now 2 percent, will by 1949 have increased to 6 percent. The idea of the reserve account is founded upon the use of the investment analogy transferred from the field of private insurance, which does not apply to a social-security plan financed through the use of the Federal taxing power. According to the act, money collected through payroll taxes, insofar as it is in excess of funds needed for making current benefit payments, is to be invested in Government bonds paying 3-percent interest or more. These bonds can be bought in the open market or can be new issues paying this rate of interest.

Most of the money collected in taxes based on pay rolls will not be used for current payments to beneficiaries of the account when payments begin in 1942. But by 1980 all of the receipts from pay-roll taxes plus $1,406,000,000 in so-called interest will be required. Consequently, people now in middle age will, on retirement, receive much smaller benefit payments than those now starting work who are covered by insurance. For example, the average rate of benefit in 1942 will be approximately $18 per month, whereas the average rate of benefit payment in 1980 will be approximately $46 per month. As a consequence of the low rate of benefit payments for those who are now in middle age or older, an unusual burden will be placed upon the young people of the present generation for the care of their parents when they reach old age. This burden will not be placed upon the young people of the next generation, because by that time those retiring will have been insured for practically all their working years.

This situation results from the use of the reserve principle as a basis for the old-age benefits. As previously indicated, the funds in the old-age benefit-reserve account must be invested in Government bonds. These may be either outstanding issues now held in private hands paying 3-percent interest on the purchase price or they may be merely newly issue bonds bearing 3 percent interest.

Certain important results follow from these provisions. If bonds now privately held are purchased for the account, the Government will be buying up evidences of its own indebtedness. Nominally these bonds will be held in the reserve account. But actually this will constitute a retirement of the debt. Certainly it is not logical to speak of the Government's being indebted on its own obligations when held by itself. If the bonds for the account are obtained through this method, then the public debt will be retired by means of taxes levied on the gross earnings of the lower-income groups—groups least able to carry this type of regressive taxation. The payment of such taxes reduces the purchasing power of a large portion of the population whose standard of living is already much lower than is desirable. It never has been the policy of the National Government to retire the public debt through taxes on the lower-income groups. Money for the retirement of the public debt has in practically all cases been drawn from the general-fund revenues, and the general fund has been primarily raised through taxes on those who are more able to pay than those people who will now be paying the larger part of the pay-roll taxes.

If, on the other hand, the Treasury issues new bonds for the reserve account, the cash position of the Treasury is thereby increased, although the obligations of the Federal Government are increased by an equivalent amount. Now, what can the Government do with the money received from the taxes based upon pay rolls when new bonds are issued? One possibility is that these funds could remain unspent in the Treasury. Another possibility is that the money could be used for meeting current expenditures of the Government. This might encourage a higher level of Government expenditures than would exist if such funds were not placed in the Treasury. A third possibility is that the Treasury could use these funds for the purchase of outstanding Government bonds paying interest of less than 3 percent. This would have the same consequences as outlined previously. In any event, there will be no money left in the Public Treasury to actually earn interest for the account. The money will have been spent. Money spent cannot earn interest.

From figures contained in reports of congressional committees on the social-security bill it is evident that by 1980, 40 percent of the old-age benefit payments will come from the so-called interest on the bonds held in the reserve account. But one cannot correctly speak about the bonds in this account earning interest. If outstanding public debt is brought up by funds in the account, it would not be logical for the Government to continue to pay interest on its own obligations when it holds them itself. If, on the other hand, new bonds were issued for the account, the money will actually have been used for current expenditures or for debt retirement, and money that does not exist cannot earn interest. What really happens is that by 1980 the old-age benefit reserve account will require a subsidy from general-fund revenues of 40 percent of the total benefit payments. No one opposes granting a subsidy where necessary for the payment of old-age benefits. We should not, however, hide the fact that the Federal Government is paying such a subsidy and we should not finance old-age benefits in such a manner that the subsidy is more than is necessary for this purpose. But under the present plan that is actually happening. As a result of using the reserve account, more money is being collected from employers and employees in insured occupations than is actually necessary for current benefit payments. The excess funds will be spent for the purpose of debt retirement or for meeting current expenditures of the Government.

A large portion of the people of this country are excluded from the operations of the old-age benefit provisions of the Social Security Act. Among these excluded groups are agricultural laborers and domestic servants. These people cannot come within the terms of the act and consequently in their old age they can receive only old-age assistance as provded in title ɪ of the Social Security Act. This assistance is not given as a right but is given as a privilege. It is given only where there is a showing of need. Thus the people in these noninsured occupations can receive such assistance only after they have undergone the humiliating procedure of a needs test.

There is a marked incompatibility between the old-age benefit plan provided for in title II of the Social Security Act as it now exists and the system of old-age assistance provided in title I of the act. In 1942 the average man in an insured occupation and his wife will receive only an average benefit payment of approximately $18 a month. But a man who had been employed in a noninsured occupation will with his wife be able to receive up to $60 a month for old-age assistance. It should also be noted that payments for old-age assistance under title I of the Socail Security Act began in 1936, but payments under the contributory old-age benefit plan will not begin until 1942.

It seems desirable, therefore, that the Social Security Act should be so amended as to provide for the repeal of the full reserve plan and to substitute in its place a direct pay-as-you-go system with a small contingent reserve. The adoption of this plan will permit the continuance of the present 2-percent tax—1 percent on the employer and 1 percent on the employee—for a number of years beyond the period now provided for in the act. This plan will avoid the imposition of a heavy tax upon lower income groups for the purpose of retiring the public debt or for providing current revenues.

Some contend that if we do not have the full reserve plan a 10 percent pay-roll tax will be required to meet payments by 1980. A Government subsidy bearing part of the cost of the plan will make any such pay-roll tax unnecessary. Such a subsidy is already provded for in the Social Security Act. There it masquerades under the tittle of "interest." The Federal Government can afford to pay such a subsidy since it will not have to pay out of the general fund interest on the $47,000,000,000 old-age benefit reserve account.

Sweden, a progressive country in the field of social legislation, furnishes strong evidence against the use of the principle of the reserve funds. The original plan set up in Sweden provided for the existence of a reserve fund based upon the private insurance analogy. A few years ago a special royal commission was set up in Sweden to study the whole problem of financing the old-age benefits. After long study this commission submitted a report advocating the abolition of the reserve and substitution of a pay-as-you-go plan. The recommendations contained in this report were adopted. This year Sweden began a pay-as-you-go plan.

If we adopt a pay-as-you-go plan, we can begin benefit payments within a year or two—say, in 1939. Without raising the normal level of benefit payments we can increase the benefits to those retiring in the next few years. This will not increase the benefits paid to people who will have been insured during most of their working years. But it will relieve the present younger generation from a large part of the burden imposed upon their private funds for the care of their aged parents. This will tend to bring the amounts paid as old-age benefits more into line with amounts paid as direct old-age assistance.

Holding down the tax to 2 percent temporarily, increasing immediate benefit payments, and starting them earlier appear feasible. There is very good reason to believe that the Social Security Board can formulate workable plans to accomplish these objectives. A 2-percent tax would in 1950 yield $625,000,000. Benefit payments as required by the present act would amount to $505,000,000. This would leave a margin of $120,000,000 to finance the increased cost of benefit payments as here suggested. This takes no account of any interest which may be credited on possible reserve accumulations.

It is also desirable to formulate plans for the extension of the old-age benefit system to certain excluded types of employment, such as domestic servants and agricultural laborers. Many of these people desire to come within the terms of the act but find it impossible. It is not fair to people who pay taxes for their old-age benefits to have others not in insured occupations receive old-age assistance without direct cost.

The resolution asks a study not only of all the foregoing considerations, but also of an alternative which would leave benefit payments at their levels as now established in the present Social Security Act and take full advantage of the abandonment of the full reserve basis in the form of a longer postponement of any increase in pay-roll taxes on employer and employee. It is suggested that the 2-percent tax—instead of increasing 1 percent each 3 years until it reaches 6 percent—can be held at 2 percent for at least 10 years if the full reserve be abandoned. The question whether it is preferable to use a portion of these savings, incident to the abandonment of a needless reserve, in hastening benefit payments and leveling off some of their more immediate inequities, or in using all of these savings to postpone an increase in the pay-roll taxes, will be a policy question for Congress to decide in the light of the full facts as reported by the Social Security Board.

Senator VANDENBERG. I want to ask you why this unanimity of opinion among the seasoned insurance experts of the country should be so at variance with the Federal law if the Federal law is right?

Mr. ALTMEYER. Well, Senator, I would say that the question of whether you go on a pay-as-you-go or reserve system, as considered by those insurance presidents, is largely a question of the effect upon the investment markets. The insurance presidents are thinking particularly of the effect upon their investment.

Senator VANDENBERG. Are you saying that their answers to me in connection with this desperately important public problem are entirely selfishly grounded?

Mr. ALTMEYER. I am only saying that they are thinking primarily of how it affects their business. I am not saying that is not legitimate. I do not criticize them for a minute for thinking in that direction. It is a very important problem to consider. I say, however, Senator, that there are social and economic questions involved here other than the question of the effect upon the investment market.

Senator VANDENBERG. Well, I cannot concede that there is any social problem involved in the actuarial contemplation, the mathematical contemplation of whether or not you are going to pay as you are whether you are going to accumulate a reserve. Why is that a social question?

Mr. ALTMEYER. Because the reserve is only a means to an end. The end is to attain a self-sustaining system. So long as we have only 50 percent of our gainfully occupied in this system it is unwise and unfair, in my opinion, to ask the uncovered group, the excluded group to pay any part of the cost of benefits to the covered group.

You and I are not far apart as regards the long-time future. To the extent that we can develop ways and means of bringing about border coverage and get to a more inclusive coverage, that is the desirable goal. To that extent we can consider going on a more of a pay-as-you-go plan than we have now, because obviously if we have the whole gainfully occupied population in this system then there is no question of injustice to the excluded group involved.

Senator VANDENBERG. Well, man after man in this to me very impressive list of insurance executives makes the spontaneous argument that while a private insurance company has to operate on a full reserve plan, because it has to amortize each premium it gets, inasmuch as it is not sure of its future income, that a Government insurance policy is a totally different thing because it can rely upon a compulsory tax-supported revenue year after year, and since there is that fundamental difference in the two situations the difference carries over into the problem of reserves, and when you build your reserves on a full reserve basis you are doing something that is absolutely unnecessary and desperately burdensome. Now, I cannot dismiss the testimony of men like President Buckner of the New York Life Insurance Co., President Kingsley of the Penn Mutual Life Insurance Co., President Duffield of the Prudential Life Insurance Co., President Brainard of the Aetna, and President Cleary of Northwestern Mutual, and all the rest of them. Here is a file of the unanimous opinion of the great insurance executives of the United States who are a body with a century of experience behind it saying to us that we are on the wrong basis. Now, is that to be dismissed without a very careful study?

Mr. ALTMEYER. No, sir.

The CHAIRMAN. It is my recollection, Mr. Altmeyer, that when we were considering this legislation there were two lines of thought with reference to this reserve. I think the committee reversed itself, in other words, but there was no question that was more debated than this one, and that was given more consideration. It seems to me that it has got to be studied and continued to be studied. The additional tax is not imposed until what year?

Mr. ALTMEYER. Three years from now.

The CHAIRMAN. Three years from now. No one suggests changing the present tax on the proposition?

Mr. ALTMEYER. No, sir.

The CHAIRMAN. So we have got some time to study on the proposition at least.

Senator VANDENBERG. Well, is it not a fact that when this plan was first born in the President's Advisory Group it was born on the basis of merely a contingent reserve and pay-as-you-go plan?

Mr. ALTMEYER. As I recall the rates and benefits payments in the original bill introduced into the Senate, it would have provided a smaller eventual reserve than the one that is provided under the tax rates and benefits payments of the present plan.

Senator VANDENBERG. Do you know why the change was made?

Mr. ALTMEYER. Senator, the Secretary of the Treasury appeared before the House Ways and Means Committee to argue very forcibly for going on to more of a reserve plan than originally contained in the bill introduced in the two Houses of Congress.

Senator VANDENBERG. Was not his reason the fact that by maintaining the full reserve he was able to look forward to a ready-made market for continuing obligations of the Government of the United States and that, as the result, he could from year to year finance his deficits out of pay-roll taxes?

Mr. ALTMEYER. I do not know what was in his mind.

Senator VANDENBERG. I want to say that I can see no excuse whatsoever for the full reserve system which, in my judgment, for the time being, is a pay-roll tax in the nature of an income tax on the low-earning labor groups of this country for the immediate purpose of doing nothing except making it easy to finance Federal deficits. That is the only defense that I know of for the full reserve.

Mr. ALTMEYER. May I make another defense? The whole question is whether we have lower or higher pay-roll taxes. The present pay-roll tax is now 1 percent. No one has suggested less than 1 percent. That tax rate remains in effect for the next 3 years. As regards its relation to benefits it is possible for an individual who retires in 1942 to draw out 72 times as much, by way of benefits, as he has paid in taxes. Now, it certainly does not seem to me that we ought to reduce tax rates still further in relation to benefits until we have gone farther down the road in including a greater proportion of our population. As I see it, the chief difference between us is as to when we should consider going on a pay-as-you-go system.

Senator VANDENBERG. Let me interrupt you. Please do not misunderstand me. I am not trying to tear down your Social Insurance Act in any degree. I am in complete sympathy with it. I voted for it. The suggestions that I have offered in this resolution hopefully address themselves to hastened benefits. There is nothing hostile to the scheme itself in anything I am proposing. I am trying to make it better and stronger, but it seems to me that unless we rather promptly set up the mechanism to study out this reserve problem we will find ourselves drifting into 1940 with the increased pay-roll tax, and then we will drift into the next difficulty, unless we recognize it as a major problem and attack it as such. Could not it be recognized as a major problem?

Mr. ALTMEYER. It certainly should, Senator.

Senator VANDENBERG. How should we attack it?

Mr. ALTMEYER. The point I wish to bring out, Senator, is that going on to a pay-as-you-go plan should be after we have inclusive coverage, rather than before we have inclusive coverage.

From the standpoint of immediate rates there is no problem involved for 3 years, certainly.

From the standpoint of benefits your resolution indicates that you do not think it wise to start payment of benefits prior to 1939, so that gives us until then to discuss and determine a sound—I do not mean sound——

Senator VANDENBERG. "Sound" is a good word.

Mr. ALTMEYER.——a different, perhaps more liberal, benefit plan. That is tied up, as I indicated in the letter, with the question of whether we would not pay benefits to people who are permanently disabled even though they haven't reached the age of 65 and to survivors of beneficiaries under the old-age benefit plan.

We could work out a plan for you in a very short time for changing the present rate of benefits but I think the big problem is how fast we can extend this plan to the present excluded groups.

The CHAIRMAN. I do not believe it will be very soon. As I recall the committee voted unanimously to exclude farmers from the original act. I have not heard of any movement to include them.

Senator VANDENBERG. That is probably so. Are you now saying that until this thing happens which the chairman says is never going to happen——

The CHAIRMAN (interrupting). I did not say it is never going to happen. I said in the past it has not happened.

Senator VANDENBERG. Are you saying this thing must happen which the chairman says probably will never happen, that it has got to happen before we start studying release from the full reserve burden?

Mr. ALTMEYER. No, sir. I say that we should, if we pass from the reserve to the pay-as-you-go, we should pass as, if, and when we extend the coverage of the law.

Senator VANDENBERG. And if we do not extend the coverage we should not pass it, is that right?

Mr. ALTMEYER. No, sir.

Senator VANDENBERG. What is the reason?

Mr. ALTMEYER. Because I do not think it is fair to the excluded groups to pay the cost of benefits to the included groups. You would not ask the general taxpayer to pay the cost of workmen's compensation. If a man is hurt in a factory you pay out of premiums based upon the pay roll. You certainly would not ask the general taxpayer to pay his compensation. That is exactly the same thing.

Senator VANDENBERG. Of course, I cannot see the analogy, because it seems to me when you accumulate your full reserve you are not only asking the taxpayer to pay the direct subsidy, but you are also asking him to pay the accumulation of the subsidy.

Mr. ALTMEYER. Let us assume that we took these revenues and retired the present Government debt, and, as Senator Byrd indicated a while ago, engage in some useful public works and increase the public debt so that the total, in round figures, is $50,000,000,000 in 1980. If we did not collect the money to retire the outstanding debt in the hands of private individuals and place that in the old-age reserve account, when we get to 1980, if we did not reduce the Government debt we have now and in addition engaged in the same useful program that I mentioned a second ago, we would reach 1980——

Senator VANDENBERG (interrupting). What do you mean by "useful program"?

Mr. ALTMEYER. Define that as you will. I will leave that to you for definition.

——we would reach 1980 with a current charge upon the taxpayer of a billion and a half for interest payable to the private holders of Government obligations, and another billion and a half to cover the current deficit under this Federal old-age benefit plan. So you would have exactly double the current tax bill on the taxpayer in 1980.

Senator VANDENBERG. Now, let me confess that I haven't even remotely the necessary equipment to discuss this thing intelligently, but let me ask you for a suggestion as to how we can start definitely working toward an effective study of this problem in a fashion which will take advantage of the experience and the views of these 60 witnesses that I have just handed down in that list, and the other thought of the country which pretty generally is opposed to the full-reserve system. How can we go at it to seriously make a job of this study and start now? How can we do it?

Mr. ALTMEYER. The Board is authorized under the act to make studies of the problems of social security.

Senator VANDENBERG. With great respect to the Social Security Board, I am not willing to leave the investigation solely with them, because I think it is prejudiced in favor of the existing system.

Mr. ALTMEYER. We do meet quite frequently with advisory groups, both from labor and from employers. We are also in contact with other groups.

Senator TOWNSEND. Is that outside of your employees?

Mr. ALTMEYER. Yes, outside of our employees. We propose to continue to meet with these and other advisory groups. I think it would probably be well to create an advisory group consisting, perhaps solely, of these life-insurance presidents. One of the advisory groups we met with is the Social Security subcommittee of the Business Advisory Council of the Department of Commerce. On that subcommittee is Albert M. Linton, president of the Provident Mutual Life, who, I understand, assisted in the drafting of this concurrent resolution. We have great respect for Mr. Linton's views, and they will continue to be given the consideration to which they are entitled.

Senator VANDENBERG. You are quite right in identifying Mr. Linton as one of my advisers, because I will tell you he convinced me completely that you are all wrong.

Mr. ALTMEYER. Perhaps he can convince us.

Senator VANDENBERG. I would just like to give him a chance.

Senator DAVIS. Mr. Altmeyer, should any of the present coverages be excluded?

Mr. ALTMEYER. No, sir. I think rather than exclude any of the present groups we ought to proceed to cover more groups.

Senator DAVIS. Do not you think we ought to bring in the maritime workers and the general public employees of this country into this?

Mr. ALTMEYER. I think we ought to include the maritime workers on the vessels documented under the laws of this country. Now they are excluded, as well as the workers on vessels documented under the laws of other countries, but I think we could very well take them in. I understand that the International Seamen's Union is urging that they be included.

Senator DAVIS. Should one of the employees be requested to retire he receives any benefits?

Mr. ALTMEYER. By whom do you mean? By the employer?

Senator DAVIS. The employer, yes; request his employees to retire before they receive their benefits.

Mr. ALTMEYER. I should not think so. because until they reach 65 they will not be entitled to a monthly benefit.

Senator GERRY. I would like to ask one question that I am not clear on. I think you said that in the calendar year you expected to receive something like $600,000,000 from these special taxes, and you expected the cost to be paid out of the benefits amounting to about $550,000,000.

Mr. ALTMEYER. No; the appropriation to the reserve account will be made by Congress out of the general revenues.

Senator GERRY. What?

Mr. ALTMEYER. The appropriation to the reserve that I am speaking about will be made each year by Congress out of the funds in the Federal Treasury.

Senator GERRY. That is what I was not clear about. I wanted to get that clear.

Mr. ALTMEYER. I was speaking of the appropriation to the reserve. Before 1942, benefits payable are limited to the lump-sum payments in the case of men and women who become 65 years of age and are not qualified for monthly benefits, and to the estates of people who die during the year. These sums are relatively small, very small during the early years, of course.

Senator GERRY. Now, does not that leave $15,000,000?

Mr. ALTMEYER. I am speaking from memory. I think the difference between the estimated receipts and estimated appropriation to the reserve is about $40,000,000.

Senator GERRY. Well now, what do you do with the $40,000,000. You said part of it went into operating expenses. For example, I suppose it is the pay roll of the Social Security Board?

Mr. ALTMEYER. Yes; and the Treasury.

Senator GERRY. And the Treasury. Now, is all of that used up? Does it take $40,000,000, for example, for your pay roll and the Treasury pay roll? What is the amount in all?

Mr. ALTMEYER. In the early years we estimate that the percentage of administrative cost to taxes collected will probably be eight-and-a-fraction percent. Am I right?

Mr. LATIMER. That is the estimate; yes, sir.

Mr. ALTMEYER. As we get into production, so to speak, and as the tax rates are increased so that the revenue is increased, that percentage probably will drop to about 5 percent.

Senator GERRY. Yes; but I am taking this illustration because you have mentioned it. I am taking the figures as $40,000,000. I just want to get the picture clearly in my mind. How much is the administrative expense, for example, of the Social Security Act at the present time?

Mr. CORSON. The administrative expenses during the current fiscal year would approximate——

Senator GERRY (interrupting). I did not say fiscal year, because the witness stated the calendar year. You have got $40,000,000. Now, how much of that $40,000,000 goes into the Social Security administration, all their expenses and everything else?

Mr. CORSON. Administrative expenses of the Social Security Board during the calendar year 1938 will approximate $18,000,000. The Treasury's administrative expenses incident to the collection of taxes, the pay-roll taxes, will approximate $8,000,000, which makes a total of $26,000,000.

Senator GERRY. What happens to the other $14,000,000? Is that left to go into the general fund? That is just velvet then, for general appropriations?

Mr. ALTMEYER. Well, you cannot make an exact adjustment like that year by year, Senator. Next year the appropriation for administrative expenses may exceed the difference between what is appropriated to the reserve and what is collected in taxes. You see you are dealing in such large figures that it is difficult to estimate.

Senator GERRY. $18,000,000 of appropriation, considering figures of this size, is very small. What stands out is that this $14,000,000 is left in the general fund instead of going into the social-security fund to meet the expense.

Mr. ALTMEYER. I want to point out that in advance of the collection of a single cent of taxes Congress has already made appropriation for reserve.

Senator GERRY. It is up to Congress, I understand that.

Mr. ALTMEYER. Under the plan, I presume Congress will over a period of years appropriate every single cent over and above administrative expenses to the Federal old-age reserve account.

Senator VANDENBERG. If that is true then why should not these pay-roll taxes, when collected, go into a special trust fund in the Treasury for the Social Security Board instead of the general fund of the country?

Mr. ALTMEYER. My understanding is it is not possible under the Constitution as it has been interpreted.

The CHAIRMAN. Under the decision in the A. A. A. case.

Senator VANDENBERG. In other words, that is an arrangement necessitated by the constitutional situation.

Senator TOWNSEND. Mr. Altmeyer, what percent of this fund which will amount to $47,000,000,000 in 1980 will be paid by the taxpayer that is not covered in this act?

Mr. ALTMEYER. In 1980 it is estimated that the interest on the reserve will amount to $1,400,000,000, and that will have to be met, as Senator Vandenberg pointed out, through general taxes. There will be a current appropriation during that year to the reserve of $2,180,000,000.

Senator TOWNSEND. Yes; but as you have accumulated the fund of $47,000,000,000 you have placed it with the Government at 3 percent and the taxpayer that is not covered, that is outside, will have paid a portion of this in these years up to 1980, will he not?

Senator DAVIS. That is paid in interest.

Senator TOWNSEND. Yes.

Mr. ALTMEYER. That is paid in interest; yes. On money that was collected through pay-roll taxes.

Senator TOWNSEND. What do you estimate that to be?

Mr. ALTMEYER. $33,000,000,000.

Senator TOWNSEND. The taxpayer that is not covered will have paid $33,000,000,000 of the $47,000,000,000?

Mr. ALTMEYER. Yes; that is right, but he would have gotten value for his money.

Senator DAVIS. If there are Government securities to invest this money in we will invest it, and if we cannot invest it it will have to come from the taxpayers.

Senator BYRD. I want to compliment Mr. Altmeyer for making a clear statement.

Mr. ALTMEYER. Thank you.

Senator BYRD. I want to carry it a little further. The operation of this reserve fund, let us take the next fiscal year, I think it is a little easier to answer, my recollection is that the Budget carries an item of $860,000,000. Am I correct in that?

Mr. ALTMEYER. For the reserve account alone, Senator, it is $540,000,000.

Senator BYRD. I mean the total is $860,000,000, is it not, approximately?

Mr. ALTMEYER. $846,000,000.

Senator BYRD. Now, let us take the reserve fund of $500,000,000——

Mr. ALTMEYER. $540,000,000.

Senator BYRD. $540,000,000; now, will that $540,000,000 that is collected from the tax—you estimate that that is the receipts from the tax?

Mr. ALTMEYER. Approximately.

Senator BYRD. Will that $540,000,000 then be invested immediately in United States bonds?

Mr. ALTMEYER. Well, I read the testimony of the Budget Director before the Senate Appropriations Committee, I think a week or 10 days ago, and he stated then, as I recall, that it would be invested in monthly installments.

Senator BYRD. It would be invested within the year's period?

Mr. ALTMEYER. Yes.

Senator BYRD. Now, the next year how much will be invested?

Mr. ALTMEYER. These figures I have, Senator, are on the calendar year basis instead of the fiscal year.

Senator BYRD. It does not make any difference.

Mr. ALTMEYER. For the calendar year 1939 it is $521,000,000. Apparently these are the old figures.

Senator BYRD. You can use the calendar year.

Mr. ALTMEYER. I do not have anything except the old figures, and I imagine you want the increase in the amount per year.

Senator BYRD. That is right.

Mr. ALTMEYER. The old figures run from $511,000,000 in 1937, $515,000,000 in 1938, $521,000,000 in 1939, $803,000,000 in 1940 when the additional one-half of 1 percent on the employer and employee goes into effect; in the next year, 1941, it goes to $811,000,000; the next year, 1942, it goes to $818,000,000; then in 1943, when the next step up in rates occurs, it goes to $1,121,000,000.

Senator BYRD. I would like to have you, Mr. Altmeyer, put the entire table in the record, if you will.

Mr. ALTMEYER. I will put into the record the table which has been made up on the fiscal year basis.

(The document referred to is as follows:)

Estimated appropriations, benefit payments, and reserves under title II of the Social Security Act

[In millions of dollars]

Fiscal year ending June 30—	Appropriation for reserve	Interest on reserve	Benefit payments	Balance in reserve
1937 [1]	255.5	0	1.9	253.7
1938 [1]	513.5	7.6	7.2	767.5
1939	518.5	23.0	14.5	1,299.5
1940	662.2	38.8	22.0	1,973.6
1941	807.2	59.2	92.7	2,810.3
1942	814.8	84.4	52.8	3,656.6
1943	970.0	109.8	94.2	4,042.1
1944	1,126.6	139.3	142.9	5,765.1
1945	1,137.0	173.0	191.2	6,883.9
1946	1,291.4	206.5	249.2	8,312.7
1947	1,447.1	243.9	314.5	9,509.2
1948	1,460.1	285.2	377.4	10,877.0
1949	1,621.1	326.3	442.1	12,382.4
1950	1,783.3	371.5	505.5	14,031.7
1955	1,861.2	615.8	887.8	22,115.7
1960	1,939.1	844.2	1,379.9	29,543.9
1965	2,016.9	1,040.9	1,844.0	35,898.5
1970	2,094.8	1,210.9	2,303.5	41,366.7
1975	2,172.7	1,341.8	2,872.1	45,368.3
1980	2,180.5	1,406.0	3,511.3	46,942.7

[1] Revised estimates for the years 1937 and 1938 have been made since these tables were first prepared in 1935. The appropriation for the reserve for 1937 is $225,000,000 and for 1938, $540,000,000. The revised estimate for benfit payments are $963,000 and $7,701,000 respectively. See House hearings on the Treasury Department appropriation bill for 938, pp. 68–73.

Source: S. Rept. No. 628, 74th Cong., 1st sess. (May 13, 1935) from the Committee on Finnace, on the social security bill (H. R. 7260), p. 9.

Senator BYRD. In 1943, in other words, $1,000,000,000 of the Government's own bonds will go on the market, even though they are paying 2½ percent interest, or whatever rate it may be at that time, the Government will hold that money then in this reserve fund, which is just as much of a debt and even more sacred an obligation than if they owed it outright, because they are custodians of the money that is collected from employers and employees. Of course, this may be a little foreign to the operation of your department, but don't you think that if the Government has a fund that it must buy bonds, so to speak, from that that would be an incentive to increase the public debt rather than reduce the public debt through the years to come?

Mr. ALTMEYER. I really do not know, Senator.

Senator BYRD. In other words, assuming in 1943 you have got a billion dollars and the Congressmen say, "All right, we will take that billion dollars and we will spend it, we get the interest on it anyway and we might as well spend it", and you are creating just the same debt as you created when you borrowed money from me or any other citizen of the country. So it seems to me inevitable that the public debt finally will reach the point, if it does not do it in the ordinary course of events, to the extent of this reserve at least. I am one of those that look forward to a reduction in public debt.

Mr. ALTMEYER. Of course, it may be that that would lead to Congress increasing the Government debt. On the other hand, the argument may be made that the very fact you are creating an old-age reserve account here, a definite liability, with definite interest charged thereon, that will be an ever-present reminder of the accruing liability which you are assuming under this system.

Under the pay-as-you-go plan your liability is likely to creep up on you unawares, and we would reach a period 30 or 40 years from now perhaps without a reduction in the debt in private hands and with a large current charge to meet the deficit.

Senator BYRD. Well, that finally gets down to the question of interest because, as I understand it, you do not propose to pare this reserve no matter what happens. We may have another depression like in 1929. You expect to keep the reserve accumulating, as you now expect it to do. Then it comes down to the question of how much interest you pay, because that is the actual cash that comes out of the Treasury. Now, would not it be better to pay the interest rather than to give an easy opportunity, so to speak, for the issuance of bonds, thereby increasing the public debt to a point way beyond what anybody now anticipates it may go to?

Mr. ALTMEYER. If you pay interest in actual cash you would have to accumulate a larger gold reserve, I presume. Where you get that larger gold reserve I do not know, because we already have most of the gold.

The CHAIRMAN. Mr. Altmeyer, in that connection, in a study of this proposition it seems to me you ought to give thought to the matter of whether or not out of this fund, when Government bonds are purchased, they ought to apply to the current rate of interest or the 3-percent rate of interest. Do I make myself clear?

Mr. ALTMEYER. Yes, Senator.

The CHAIRMAN. Are there any other questions of Mr. Altmeyer?

Senator TOWNSEND. Mr. Altmeyer, how do you set up the State organizations to cooperate with the Bureau?

Mr. ALTMEYER. This title we have been talking about, Senator, is the only title under the jurisdiction of the Social Security Board which is wholly federally administered. Title I, which is the companion title to title II, relates to State old-age assistance, is administered by the States, and 50 percent of their expenditures for old-age assistance, which is usually termed State old-age pensions, comes from the Federal Government. The State is required, under the statute, to submit a plan which includes not only the text of the law, but the administrative organization and procedures that are intended to be followed. If that plan meets the standards prescribed in title I it is approved by the Social Security Board. As I say, the expenditures thereunder are met 50–50 by the Federal Government.

Senator TOWNSEND. Then is the State required to put up its 50 percent and show its good faith before you put up anything?

Mr. ALTMEYER. We make the grant on the quarterly basis, Senator, so the State would not have to collect all the money for the whole year in advance, but it would have to show it had revenues in prospect sufficient to meet its share during the quarter for which the grant was requested.

Senator TOWNSEND. Well, it has been reported—I am just asking whether that is true or not—that the different States come to the Social Security Board and say they need $40,000, $50,000, or $100,000, that you give them that amount. Is that correct?

Mr. ALTMEYER. For what purpose?

Senator TOWNSEND. For the purpose of their State organization.

Mr. ALTMEYER. You may be referring to the unemployment-compensation title. Under title III the whole cost of the administration of State unemployment compensation laws is borne by the Federal Government.

Senator BYRD. Have you got any idea as to the appropriations that will be required, exclusive of the unemployment insurance for the Government?

Mr. ALTMEYER. You mean for the present fiscal year?

Senator BYRD. Yes; the direct appropriation in excess of the amount collected from the tax for the years to come.

Mr. ALTMEYER. I think, Senator, you want the estimate of the total pay-roll taxes collected?

Senator BYRD. I just want the difference. For instance, in the next fiscal year you just said it is $320,000,000 difference. In other words, there is over $800,000,000 appropriated, and you collect $540,000,000. So, then, there is a net loss to the Government for the next fiscal year of over $300,000,000.

Mr. ALTMEYER. No; we are using the wrong figures. You used a later-year figure in the $800,000,000.

Senator BYRD. Wait a minute. What is the appropriation in the next fiscal for Social Security? I am speaking of the year beginning July 1 next, the budget that has just come in.

Mr. ALTMEYER. The budget recommended $540,000,000 for the old-age reserve account, and $296,000,000 for other Social Security expenditures.

Senator BYRD. That is what I mean, then. Then the Government is appropriating approximately $300,000,000 in the next fiscal year in excess of what they will receive from the taxes?

Mr. ALTMEYER. That is right, taking the Social Security Act as a whole.

Senator BYRD. I would like to have you put into the record the actual cost to the Government as you estimated for the years to come up to 1980, per year, for these different activities in excess of this sum of money that we collect in the form of taxes.

Mr. ALTMEYER. I think it is impossible to do that.

Senator BYRD. Can you give us some estimate?

Mr. ALTMEYER. I have an estimate up to 1945.

Senator BYRD. What is 1945 then? Deduct from it the taxes you collect.

Mr. ALTMEYER. This is entirely a personal estimate that I prepared for my own use, but in 1945 I estimated that the pay-roll taxes going to the credit of the Federal Government would be $1,340,000,000, and probably we would disburse altogether under the Social Security Act, including not only the titles which we administer but the titles that are administered by the other departments of the Government, $654,000,000, leaving an excess in cash receipts over cash disbursements of $686,000,000.

Senator BYRD. You have involved the reserve fund in that. What I want to know is the cost to the Government, year by year, so far as you can estimate it, of those features of the Social Security Act, which are not included in the reserve, and which are not included in the form of taxes.

Mr. ALTMEYER. All right. Giving you the probable disbursements year by year, exclusive of old-age benefits which is paid out of the old-age reserve account, and the cost of unemployment insurance, which is fully offset by tax collections, it would run to $280,000,000 for 1938, approximately $320,000,000 for 1939, $345,000,000 for 1940, and by 1945 that would total $383,000,000.

Senator BYRD. And then to that must be added, of course, the difference between the 3-percent interest which you paid on the bonds that were purchased and the current rate of interest?

Mr. ALTMEYER. I have been speaking of cash disbursements.

Senator BYRD. To that though, as a matter of bookkeeping, must be added, for instance, if the current obligations of the Government are 2½ percent and this has gone up to 3 percent, that must be added. I understood you to say, in response to a question by Senator Vandenberg, that in 1980 there would be a billion and a half dollars spent for these other activities.

Mr. ALTMEYER. No; a billion and a half, Senator, for the interest on the reserve.

Senator BYRD. Then you said another billion and a half, as I understood it, making three billion.

Mr. ALTMEYER. No. I said if you did not have a reserve built up drawing interest of a billion and a half, and if you had that amount of Government obligations in the hands of private holders, you would have an interest charge of a billion and a half dollars and you would have an annual deficit in your Federal old-age benefit plan of a billion and a half dollars, making a total of $3,000,000,000.

Senator BYRD. Is that the amount which it would cost the Government in 1980, $3,000,000,000 a year? Assuming that the Government owned these $50,000,000,000 of bonds on which they paid 3 percent, is that the amount it would cost the Government?

Mr. ALTMEYER. No. The cost of the Government in 1980 for the Federal old-age benefits plan would be nil, if you do not consider the interest charge. If you consider the interest charge which must be paid out of general taxes it would be approximately $1,400,000,000 or $1,500,000,000. Now, I have not made the estimate for State old-age assistance and these other items in the Social Security Act through to 1980.

Senator BYRD. Have you got the old-age pensions in there?

Mr. ALTMEYER. Everything is in here. I think, Senator, however, that that will taper off, because the whole idea of this Federal old-age benefits plan is to diminish the cost of State old-age assistance. So you would reach a peak, my guess would be about 1960, at which time the expenditures would probably decline.

Senator BYRD. Do not you think, with the political conditions that confront us in this country, that the rate would be increased? We have got a rate now of $30 a month, $15 by the Federal Government and $15 by the State for old-age pensions. What reasons have you to think, in view of the conditions whereby you are elected to office on the proposition that you will pay so much in pensions if you are elected, and that opportunity exists not only in the Federal Government but in the States, where it is a joint proposition—why do you think it will be retained at $30 a month?

Mr. ALTMEYER. I do not know what the average amount is likely to be, because it would depend upon many factors, the cost of living, the revenues available, and the social views of the time.

Senator BYRD. I think you are optimistic in stating that there is going to be a reduction. I think there is perhaps going to be an increase.

Senator TOWNSEND. What is your judgment as to the portion given to the State? Would you advocate increasing it?

Mr. ALTMEYER. Increasing the State old-age assistance?

Senator TOWNSEND. Yes.

Mr. ALTMEYER. I would advocate increasing it in some States.

Senator DAVIS. What States?

Mr. ALTMEYER. Some of the States that are paying rather small amounts, ranging from $5 or $6 to $10 or $11. I think it would be socially advantageous if those amounts were increased.

Senator VANDENBERG. You mean you would discriminate between States and the amount of the Federal payment?

Mr. ALTMEYER. I thought the Senator was asking me about the over-all increase in expenditures for individual cases in an individual State.

Senator TOWNSEND. No; I mean general. You advocate increasing the amount generally?

Mr. ALTMEYER. As I say, you have to take it State by State. I think in some States it is not necessary or desirable to increase the amounts beyond what they are now. In other States I think it is.

Senator BYRD. Increasing the $15 appropriation from the Federal Government, as I understand it. It is now limited to $15, and the State would match it up $15.

Mr. ALTMEYER. I think I would leave the $15 maximum in there. It does not have much practical effect at the moment, but it might be important in the future.

Senator VANDENBERG. I would like to address just a final statement to Senator Byrd's inquiry. I would like to trace what happens to the $1,000,000,000 the year that you reach it.

Senator BYRD. In 1943?

Senator VANDENBERG. It is 1943 that you put a billion dollars into the reserve; is that right?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. All right. Now, the Secretary of the Treasury takes in a billion dollars in cash from pay-roll taxes. Congress makes an appropriation of a billion dollars to the Social Security Board trust fund; the Secretary of the Treasury gives the Social Security trust fund a billion dollars of 3-percent bonds; that leaves him with the billion dollars of cash that he got from the pay-roll taxes, and he uses that billion dollars to pay current expenses with.

Mr. ALTMEYER. He might use it—probably would have used it—to retire oustanding obligations in the hands of the banks, insurance companies, or other private institutions.

Senator VANDENBERG. Or it has a billion dollars available against the current budget, if it is so used.

Mr. ALTMEYER. Well, the bookkeeping arrangements are such that it is shown very clearly that it is not available for general purposes.

Senator VANDENBERG. I rather think it is available for general purposes, inasmuch as the act says that—

> purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance, at par, of special obligations exclusively to the account.

When you follow that down I think you will find yourself at a point where you can use this money currently. The Treasurer hasn't got to use this billion dollars to retire other outstanding Government obligations, has he?

Mr. ALTMEYER. That is true.

Senator VANDENBERG. He could use it on the current operating deficit of the Government, could he not?

Mr. ALTMEYER. He could; but it would show we had not balanced our budget.

Senator VANDENBERG. That would not embarrass anybody, as far as I can discover.

Senator BYRD. Of course, the billion dollars that he borrows from this fund and issues bonds for shows as an addition to the debt. As I understand it, he could use it for current expenses.

Mr. ALTMEYER. Yes.

Senator VANDENBERG. And that makes it a billion dollars easier to keep on spending and to increase spending.

Senator BYRD. In other words, he does not have to go out to the open market and sell at all; he sells it to a branch of the Government, which makes it that much easier to do.

The CHAIRMAN. Gentlemen, it is near 12 o'clock. Getting back to this resolution, I think you have given a full explanation of it in your letter, Mr. Altmeyer. The letter will be put in the record. I will ask Senator Vandenberg if he will put it into the Congressional Record.

Senator VANDENBERG. I would like to put it in. I would like to make a few personal observations.

The CHAIRMAN. That is perfectly all right. I think we are all of one mind, that this is a major problem in the social-security program. Since it is 3 years, in 1939, before any change will be made—have you got a right to name the advisory board?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. I think if such a board is created it ought not to be one that has settled convictions on the matter, but it ought to be one which would give a free study to the proposition. No one ought to go into it with a prejudiced mind. At the same time, this committee—and, I imagine, the Ways and Means Committee—would want to look into this proposition. There ought to be a study started on it.

Senator BYRD. Of course, Mr. Chairman, while it is true that it is 3 years off, the Secretary of the Treasury starts buying these bonds immediately; he has probably already bought $550,000,000 of them, under the appropriation that is available—that has been made.

The CHAIRMAN. Of course, everybody must agree that this money ought to be working; it ought to be earning some interest, rather than staying there.

Senator BYRD. It seems to me we can look forward to 3 years from now, because the larger this burden of the bonds becomes, the more difficult it is to change.

The CHAIRMAN. I do not mean we will not take any action, Senator; I mean so far there is no immediate necessity. The proposition ought to be studied very carefully.

Senator BYRD. I would like very much if Mr. Altmeyer, alongside of the other investigation that may be made, would make an investigation of his own and give the committee the benefit of it, in some way, if it is possible to do it, to avoid this tremendous accumulated issuance of Federal bonds.

The CHAIRMAN. Well, every question that is related to this major question ought to be studied in connection with it.

Senator VANDENBERG. It seems to me, Mr. Chairman, that it is not so much the responsibility of the Social Security Board; I think it is primarily the responsibility of Congress. I am sure Mr. Altmeyer will have no objection to have a concurrent inquiry by a congressional commission into this fundamental question. That would be helpful, would it not?

Mr. ALTMEYER. Well, that would be within the discretion of Congress. I think we could make probably as good progress if Congress would suggest persons to serve on advisory committees to the Social Security Board.

Senator VANDENBERG. Mr. Altmeyer, you see the position I am in. Here I have with me these letters from 60 leading life-insurance presidents of the United States who say that the accumulation of this reserve is unnecessary. Now, I cannot just pass that off as a casual subject. It seems to me it is utterly challenging. Except as I know that they feel their opinions are going to be probed and analyzed, I am not satisfied to leave the investigation of this terrific thing solely in the hands of your own advisers.

The CHAIRMAN. Well, you intend to go into the matter—survey it from every angle?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. These names have been placed into the record. You have the proper people to confer with.

Mr. ALTMEYER. I will be glad to confer with them on the composition of of committees and method of investigation.

The CHAIRMAN. There is nothing else you can add to your letter in answer to these questions in this concurrent resolution?

Mr. ALTMEYER. No, sir.

Senator VANDENBERG. Can we agree that you will undertake—let us say, in consultation with the chairman of the Finance Committee—you will undertake to create an advisory group to study this problem and to report both to you and to us?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. Well, I would be very glad, if it meets the approval of the committee, to appoint Senator Vandenberg, and I would be glad to have the cooperation of Senator Byrd.

Senator VANDENBERG. That is fine.

The CHAIRMAN. Are there any other questions? You are going to have some amendments later which you will present to the committee?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. We will take this up at that time.

(Whereupon, at the hour of 11:45 a. m., the hearing on S. Con. Res. 4 was concluded.)