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OUTSIDE VIEWS OF THE UNITED STATES SOCIAL SECURITY SYSTEMS

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Social security systems range from, at one extreme, a purely vertical distribution of income from those with higher incomes to those with lower or zero incomes; to the other extreme, a purely individual savings scheme--individual even if it is through some collective system like private insurance. If it is adequate, pure redistribution leaves no incentive to personal and private thrift. Indeed, the high taxation of those with higher incomes may be a disincentive not only to savings but also to productivity and career advancement. Moreover, pure social welfare disbursements, if unearned, provide no encouragement to become an earner or to struggle out of a situation in which even small savings are well nigh impossible. And incidentally, this is my personal objection to the superficially attractive concept of negative income tax which is being pressed in the United Kingdom. On the other hand, if it is adequate, an individual savings scheme has no element of redistribution and makes no provision for social aid. It is not social insurance in the accepted sense of the term.

All this begs the question of what is adequate. A social security system has not only to deal with poverty, but with the protection of income. The prevention of destitution and the replacement of income are not the same thing, nor is poverty the same as inequality. Social security has long moved on beyond the protection against the distress of poverty just as life assurance has long moved on beyond mere protection against financial distress of death. The main social security concept now is maintenance of income. The replacement ratio is more important, and selectivity is less important. In West Germany, selectivity has almost been totally rejected, and there is deliberate emphasis on the maintenance of social status.

So, where within the range between pure redistribution and pure insurance would we wish to place ourselves? I suggest that most of us would wish to see thrift encouraged while the principal pension benefits should be earned through savings during the earning lifetime; even if this means enforced saving by taxation. Most of us accept that the recipient's selectivity in the form of means tested benefits which have not been earned, is abhorrent and has a stigma of charity which, though not real, seems real. We accept that the atmosphere of charity is best dispelled by the segregation of part of present income to earned future income.

Most of us would accept that flat rate benefits are either inadequate for all or more than adequate for some, and that benefits should not be flat but should be income related. However, the idea of an invariant replacement ratio which keeps the rich man in his castle and the poor man at his gate, in their respective positions, is no more acceptable than the doctrine of communism, which merely reverses their respective positions without affecting the basic inequality. There has to be an element of redistribution in that the income replacement ratio should be higher for those with lower earned incomes during the best of their working years.

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Finally, there ought to be some incentive to private thrift. There must be room for private insurance. I argue this without having any vested interest in the insurance industry. In my youth, I worked in pensions administration, and in my old age, I have an interest in investment management, but most of my working life has been spent as a public service statistician. Nevertheless, I believe that the insurance industry has an important social purpose to fulfill, and that a vigorous insurance industry is essential to a vigorous private enterprise economy. I have two reasons for arguing for room for private insurance. First, it seems to me that the use of an ad hoc tax to pay for income replacement may affect saving in two different ways. As well as demonstrating that the system is not one of charity, it emphasizes the cost of the system and that the public must save to meet the cost. By putting a value on that saving, it may introduce the idea that they are not saving enough relative to their incomes and could afford to save more. This is a favorable effect. On the other hand, taxes do tend mentally to be aggregated as the unavoidable difference between some notional pay and the actual take-home pay. The relationship between a specific tax and a specific benefit may be forgotten as easily as the name of the person for whom you voted in the last election for Congress. It is all part of the paraphernalia of something called democracy. Worse still, lost in the total concept of taxation, it may merely fuel the flames of tax resentment.

The second reason flows from this first reason, and indeed may be at peace with it. It is this. Insofar as the social security contribution is a tax, it is taken into account in wage negotiation; if not overtly, at least in determining the attitude of employees to the evaluation of a wage bargain. If so, it may be an inflationary influence on costs. The employer regards his part of the tax as a cost and will endeavor to pass it on in increased prices. So there is a gain in inflationary influence. This is not true of voluntary personal saving whether in insurance or other forms of investment. On the contrary, personal saving is a means of reduced personal spending and less inflation. Other things being equal, voluntary personal saving which is explicit in purpose and cost, an incentive to endeavor, and anti-inflationary, is to be preferred to compulsory public saving which has none of these qualities.

Lastly, in talking of the ideal social security scheme, one has unfortunately to stipulate protection against inflation. I say unfortunately for two reasons: First, because inflation, which frightens out of all proportion to its actual danger, is a tremendously powerful source of social unrest. I am more conscious of this than most since much of my working life was spent in conditions of relatively negligible levels of inflation, and even in 1930 of actual deflation. I am probably the only person here who remembers his salary being cut by 15% because the economy was bust. I also remember that we didn't argue about it. There were plenty of older men waiting for one's job. Redundancy pay was unheard of, and unemployment benefits were meager. Secondly, it is unfortunate that protection against inflation is inevitably itself inflationary — partly in real terms, and worst of all, in psychological terms. The more people there are protected against inflation, the fewer there are to worry about its elimination. However, indexing is here to stay, and it is no good grumbling about it.

How does the United States social security scheme appear to an outsider to measure up to these criteria? It appears to me to measure up more than well enough. The variable replacement ratio provides the right degree of vertical distribution and is sufficiently less than unity to provide room for private insurance. Whether there is enough room for private insurance is debatable, but the debate will only be resolved by history. There is also full indexing of benefits.

In relation to the level of taxation, the scheme seems to be a very good bargain for participants. The new British scheme which provides a median income replacement ratio of 70% and a range from about 90% down to 45%, close to the U. S. levels if you take into account the benefit to the wife on the husband's contribution, costs the wage earner 6½% of his wages and the employer 10%, a total of 16½% together with a small general exchequer subpension. Your rates are in total much lower, though a steep rise seems to be in prospect. However, an excess over the United Kingdom rates does not seem to be likely. You do have the advantage (at least I consider it to be an advantage) of parity between employee and employer for the tax rate as well as the wage basis. Furthermore, your wage base range as a percentage of average earnings is less than ours, and lower than elsewhere in western Europe. This should help private saving. Your income replacement ratios are almost the same as in the new United Kingdon's scheme and higher than in West Germany or the Netherlands.

In the United Kingdom, we expect 9 million workers out of a total work force of 22 million to be contracted out of the social security scheme on the grounds that they are in private occupational schemes which provide benefits above a minimal standard equal to that of the national scheme. This seems to be a fair condition.

Following the review of the growth of pension rights in the United Kingdom which I and my colleagues carried out in 1954, I persuaded the Institute of Actuaries to carry out an annual review of the growth of coverage of occupational pension schemes. It has been important to the vitality of the insurance industry and the investment market that the momentum of this growth has been sustained. Insurance, of course, has to be sold, but I think you still have a market of adequate proportions. While I accept most of Mr. Haeworth Robertson's prognostications, I am unwilling to accept his postulate that the federal government will be left as the only entity with the audacity to make unqualified promises to pay benefits 70 to 100 years in the future based on indeterminable cost of living increases. A government does not have the monopoly of audacity, and all promises are qualified if only by the condition that the economy itself survives. So you have, what I think to be, an extremely good social security scheme.

What about your difficulties with it? Half of your troubles--that is to say, half in terms of the actuarial deficiency as officially defined as the average shortfall of taxes--has been disposed of by the so-called decoupling action. It took me a long while to understand the problem, and even though I now understand the problem, I still don't understand how it happened. But we in the United Kingdom have done a lot of silly things, too, like allowing the earlier retirement of the longest lived sex.

The other part of your declared difficulty, that of coping with demographic changes, I do not accept to be such a serious problem as it has been envisaged. I have just written a booklet entitled, "The Decline in the Birth Rate towards a Better Quality of Life," which attempts to forestall the expected backlash of which there have already been signs against the continuing reduction in fertility in many, if not most, developed countries. Fears about expected increases in pension or dependency form an important part of this backlash. I have dealt with this problem extensively in my booklet in terms of numbers of people. I have endeavored to demonstrate, first, that the United Kingdom has already coped with the problem once without disaster following the sharp fall in the birth rate at the beginning of this century; and, second, that with an obvious sharp reduction in the numbers of workers now required to provide the same level of goods and services, we are not consuming any less. With 1½ million unemployed in the United Kingdom as proof of this change, we shall be glad to find something for our surplus workers to do.

What I have not dealt with in the booklet, because the question has not been raised in the United Kingdom, is the assumption that there will be a relative reduction in the wage base for taxation. This is an assumption that there will always be a constant relationship between workers and wages. It seems to me to be likely that if the number of people required to produce the same level of goods and services is reduced by automation or by other improvements, then wages are likely to rise, or prices to fall, or profits and, therefore, income tax to rise. I feel sure that the relationship between people and wages will be disturbed and in such a way as to prevent the realization of the worst of these demographic fears. I am bound to remark that we were warned of the advent of automation in the early 1950's when we were reaping the benefits of the application to peace of war stimulated technology. We should then have thought of a population policy to deal with the strains. We ought then to have looked more closely at demographic changes and especially at the incipient, profound, social changes affecting the family as an institution and fertility as a component within it. In the United Kingdom, certainly, we ought to have recognized that an increase in the birth flow arising from the anticipation of births in time as a result of earlier marriage and faster family building, short of birth spacing, was not the same thing as an increase in family size; that is, in fertility. We might then, and again I am still speaking of the United Kingdom, have realized that the decline in fertility had been going on for a long time, and given the social and economic changes that were taking place, it was not likely easy to recover. There are some official demographers in the United Kingdom who believe that it will recover, but frankly I can't see any reason why it should.

In the United Kingdom, and possibly also in your country, the relationship between marriage, cohabitation, and reproduction has undergone profound and probably permanent change. The three events are now almost three independent options. A woman now has many choices of role in society other than marriage and motherhood. Couples do not necessarily marry in order to live together, but the relationship may progress to marriage, and if they live together, they are not under the same kinds of pressures as in the past to produce children. The mother-in-law seems to have a lower profile.

For the woman, there is now the important factor of career pursuits. Many, those who like it and are good at it, still choose motherhood as a career, but it is increasingly a free choice. I am not overlooking, of course, the lowest stratum of society who are too ignorant and irresponsible even to consider a choice. They are a wanton strain on social security, but they don't determine the general level of fertility. There is now a situation of choice, and the factors determining that choice are not simply employment and housing; otherwise West Germany, the most prosperous of all European economies, would not have the lowest fertility rates. Young people's aspirations go beyond these basic needs to the consideration of the whole quality of life, not only for themselves but for their children. Many have leisure and career aspirations that compete with family building. Many have anxieties about world population pressure, international tensions, ecological conflicts, and conservation. Indeed, I am told that in Germany one of the main worries affecting fertility is concern about nuclear energy and its dangers. So I don't see anything in the future outlook that is going to change the present attitude of young people, and I think it would be unwise to cost social security on the basis of any such change.

Now what about the age of retirement? Having regard to what we now realize to be a significant move forward in productivity and the bleak outlook for today's unemployed, I do not think there is any benefit to be gained from postponing the age of retirement. As we pointed out in the 1954 paper, there is a great deal of difference still between survival and activity, between the quality of life and the quantity of life. It is not, however, more workers that we need--it is more jobs. I foresee an approach to a period of acute economic unrest, although I am not particularly frightened about it, as we face the task of sharing out the jobs that are available. How do you share jobs without sharing wages? And will it be later or earlier retirement that will be demanded? It is all this that is going to put pressure on social security schemes. Can we go on affording replacement ratios of 90% for the lowest paid and 50% for the highest paid? Can we go on affording full indexing of benefits?

But, can you take away from people what they have been accustomed to? If you succeed in making them pay more to defend the norms to which they have been conditioned, what happens to the room for private savings? There will have to be careful education both of politicians and the public. Politicians will have to be persuaded to take a softer line in making use of other sources of income for the social security scheme. As the birth rate declines, there are savings in terms of taxes that go to sustain the health, education, and welfare of the child population, and these savings should be utilized. And then we have to insist that the alternative to reduction in benefits is an increase in taxes. The present generation of workers must, in their own vital interests, understand this and condition themselves to paying more or receiving less. Furthermore, although there is now no acceptable alternative to current cost financing, successive generations of workers must understand the social responsibility that this implies.

Given more public understanding, I do not think that any of the future difficulties are insuperable. Indeed, I am quite sure they are not. Actuaries can do a great deal both to achieve this understanding and to provide acceptable solutions. As Fred Seltzer says in his remarkably succinct note in the January Actuary, we should be prepared.

Gentlemen, I am conscious that most of what I have said is old hat, but then, I am an old hat, and I am not especially penitent about it.