

SOCIAL SECURITY

- A. What recent developments have occurred with respect to general legislation in regard to the U.S. old-age and survivors insurance system? In particular, what developments are under consideration in connection with
 - 1. Optional coverage of state and local government employees already under retirement systems?
 - 2. Extension of coverage to other groups not now included under the system?
 - 3. The tentative disability "freeze" provisions?
 - 4. The retirement test (work clause) for payment of old-age benefits?
- B. Is any evidence available as to the ultimate distribution of the costs of Social Security and Old Age Assistance paid in the first instance by employer contributions and federal and state budgets?
- C. What is the developing experience of the new Canadian old-age pension plan? What is likely as to both short-range and long-range financing of the system?

MR. R. A. HOHAUS dealt with the extension of OASI coverage to other categories of workers in the U.S. He stated that six out of ten paid civilian jobs were covered under the original act and that this has been extended so that eight out of ten have been included. Acting on President Eisenhower's recommendation to extend coverage to persons who have been excluded, Mrs. Oveta Culp Hobby asked a group of individuals with Mr. Hohaus as chairman to serve as consultants on social security. Principal categories not covered by OASI provisions include farm operators, farm and domestic workers not meeting the regularity test of employment under present law, professional people in private practice such as doctors and lawyers, and Federal, State and local government employees and railroad workers covered under other types of legislation. According to Mr. Hohaus, the consultants have held a number of meetings in which the emphasis was placed upon the technical feasibility of extension of coverage, since the practical difficulties of administration were the major reason for the initial exclusion of important groups. The applicability of the retirement test (work clause) and the relative treatment of wage-earners and self-employed were other problems mentioned by Mr. Hohaus.

MR. R. J. MYERS summarized the bills which had been introduced in Congress prior to the Society meeting. The greatest number involved some modification of the retirement test or work clause. The present retirement test has been criticized for a number of reasons, namely:

- a) A beneficiary may, by earning wages somewhat over the exempt amount, have a smaller total income when he works than if he were not employed or did only a small amount of work.
- b) Self-employment income is treated differently, and generally more favorably, than wages.
- c) Self-employment income and wages earned in other than covered employment is not counted for purposes of the retirement test.

The next most popular subject was extension of coverage to additional groups. The House Ways and Means Committee has appointed a special sub-committee, headed by Representative Curtis of Nebraska, to make an exhaustive study of OASI. This study is under the direction of Carl Schlotterbeck, who is co-author of a book recommending that the present OASI program be replaced by a flat pension system either with or without a means test, financed by a universal flat rate personal income tax.

MR. M. J. WOOD discussed the problems and reasons for extension of the Social Security system to cover employees of state and local governments. His first point was that there should be no separation of this group since such employees and their families have the same needs for basic security benefits as other employees. Many of them move back and forth between private and government jobs with resulting confusion of coverages. It is also desirable to provide OASI coverage for those improvident or low-pay employees who have not enrolled in contributory plans. He expressed the opinion that present pension plans of state and local governments could be simply amended to provide integration with Social Security. The modification he proposed would provide that the employee's present contributions to the local plan would be reduced by the amount which he would be required to contribute for OASI benefits and that his pension benefit would be reduced by the primary amount of OASI to which he becomes entitled on the date of his retirement or at age 65. In this way the pensioners would receive the benefit of any subsequent increases in OASI benefits which may be enacted to offset the inflationary trend. This approach should appeal to the employees since they would still receive the same total pensions at retirement and would acquire additional security benefits for their wives and children. Also, it would call for a review of present plans and possibly result in strengthening those which are now unsound. An indication of the urgency of this question is that some local governments have taken or are planning steps to drop their current pension plans, even where substantial past contributions would be refundable to their employees, and then apply for OASI coverage with the intention of later adopting a revised retirement plan to supplement the OASI benefits.

MR. W. R. WILLIAMSON said that four things stand out in Social Security:

1. The large acceptance of Marxist ideology and international socialism in direct conflict with American capitalism.
2. The tremendous magnitude of its financial operations, which is generally minimized.
3. Its basic intolerance of critical fundamental American thinking.
4. The tendency for the executive branch to assume the functions of the legislative branch.

According to Mr. Williamson the following recent developments have been on the side of international socialism.

1. A report of the Democratic National Committee on OASI, expressing the Marxist view that business and financial opinion is necessarily slanted against human need and that labor, social workers, sociologists and bureaucrats necessarily think right, meaning "left."
2. The Citizens Conference on Social Security, meeting in Washington, voicing the same attitude, that any critical, technical appraisal of OASI was dictated by "the interests," against the interest of the people, and against paying interest on "the reserve."
3. The publication of various reports since election, arranged for by the last administration, in the guise of unbiased analyses—plugging for more centralized Governmental direction.
4. The appearance of over 100 Social Security bills, all asking for "more."
5. Miscellaneous International Labor Organization activities—socialist goals.

Mr. Williamson then mentioned that against these socialistic developments are some rather tardily expressed capitalist views such as:

1. The U.S. Chamber of Commerce with its overcompressed referendum—16 to 1 against some former Chamber policy—the moot questions of pay-as-you-go and universality.
2. The tough position of the head of the new Department of Health, Education and Welfare in trying to sort out the true prophets from the false.
3. The announcement of four study groups under the sponsorship of life insurance trade associations.
4. The various "spoofing" articles in *Look*, *Reader's Digest*, and the daily press.
5. Will McGrath in the *Freeman*, Leonard Calhoun in a pending booklet, considering the ILO—its failure to represent the citizens.
6. The Bricker Amendment resisting the socialist "treaty tampering" with the Constitution.
7. The pending Joint Congressional Commission on Federal-State-Local lines of responsibility, and possible distribution of concomitant tax resources.
8. The Curtis Sub-Committee on Social Security, to study OASI and Public Assistance, under the Ways and Means Committee of the House.

He also said that on which side of the debate the tax freeze may fall isn't clear, but it points up vividly the need of informed American study. Mr. Williamson concluded by saying that hope lies on the side of no more unwise legislation in the immediate future and in advancing the long-needed reconnaissance by the two Congressional Committees.

MR. W. A. JENKINS reported on action taken at the state level in connection with state and local government employees already covered by retirement plans. He said that, according to his information, there have been six states which have done away with their previous employee retirement systems, in whole or part, and have later re-enacted retirement systems. This he considered to be a highly unsatisfactory procedure and he thought, as did Mr. Wood, that the only satisfactory remedy is to amend the Social Security Act so that these groups can enter and still preserve, with or without modification, their present retirement plans.

He said it is interesting to examine the origin of that provision in the Social Security Law, Section 218(d), that says that if a group of state or municipal employees are covered under a retirement system at the inception of the federal-state agreement, they cannot be covered under OASI. He quoted from a report of the Institute of Government at the University of North Carolina which says that this peculiar provision "was added to the Social Security Act at the insistence of the International Association of Fire Fighters, the Fraternal Order of Police, the National Education Association, and the National Conference on Public Employee Retirement Systems."

The report goes on to say: "These organizations have opposed the extension of Social Security because they sincerely believe that if Social Security were available, existing retirement systems would be abandoned, or some of the more attractive retirement provisions of existing systems would be altered." This was exactly the argument that was used by many private retirement systems in 1935 when the Social Security Act was first enacted. At that time, this argument was completely brushed aside.

MR. K. H. ROSS presented the arguments for and against extension of coverage to ministers. Arguments against are concerned with the separation of the church and the state, and the liability of the church to taxation. When the 1950 amendments extended coverage to lay employees of churches, the comparison of benefits made it appear quite desirable to extend the coverage to ministers. Various church organizations either have the problem under consideration or have already recommended the extension of benefits. Bills which would include ministers on a voluntary basis as self-employed persons have been introduced in Congress recently, but have met with mixed reception. Objections have

been: (1) conflict with church tradition and practice, (2) ministers would have to pay more than employees for coverage, (3) objections to special privileges.

MR. G. E. IMMERWAHR limited his remarks to the retirement test, or work clause. He stated that the pressure against the work clause has increased instead of diminished since it was liberalized. This is because there now are fewer noncovered jobs which an individual can take and still get his old-age benefit, and because the amount lost by continuing to work is so much greater now. Originally, the work clause was defended partially on cost grounds and partially under the theory that the primary risk the OASI system insured against was the risk of being unemployed when over 65. Mr. Immerwahr believes that, now that Social Security has been successively liberalized to the point where cost considerations have become remote, these defenses are inadequate to withstand the increased pressures for even further liberalization.

MR. W. R. WILLIAMSON said, in discussing section B, that "welfare-state-crafters" have operated on the basis of four superstitions:

1. The contributory theory or the possibility of universal subsidy.
2. Lowering potential costs by discounting at interest rates not actually earned.
3. Making contributions do double service—(a) philanthropy to current beneficiaries and (b) granting "insured status" to contributors for philanthropy to them.
4. Planning to make demands upon posterity through "unilateral contracts" drawn now.

Mr. Williamson said that there is a per capita reserve of \$200 for each of the 90 million persons covered under OASI. This \$200, almost halfway along the working lifetime, raises the question, "Where is the money coming from to pay for the promised benefits?" Statements have been made that today's OASI annuitants have not even paid the premiums for their own life insurance with their contributions. Mr. Williamson said that, speaking crudely, about half of today's \$4 billion of contributions would seem to be needed for the death benefits and that this indicates that a 9% or 10% tax schedule would be necessary to provide all of the benefits.

MR. G. A. COOKE summarized the Canadian Old-Age Insurance Act, which was effective January 1, 1952, stating that all citizens who meet the residence requirements, and are 70 years of age or over, receive a life income of \$40 per month. A separate fund has been established which is financed by levies of 2% on personal taxable income, with a top of \$60; 2% on corporation taxable income; and 2% from a sales tax. He said that

the announced intention of the Government is to operate on a pay-as-you-go basis. The developing experience indicates a deficit, one estimate being \$167 million, at the end of the second fiscal year. The probability is that there will be no immediate change in short-range financing. According to Mr. Cooke the long-range financing program is indefinite but will depend upon the level of national income, and on the proportion of the eligibles over age 70 to the general population.

MR. STEFAN HANSEN stated that, unlike OASI, the current Social Security tax in Canada is not greater, but probably less, than current benefit payments. It is intended under the Canadian plan that year by year this special old-age security tax be approximately equal to the benefit payments. If it appears that the revenue will not be sufficient, the Minister of Finance is directed in the Act itself to state to Parliament what measures he recommends for increasing the revenue. Pensions have been paid only since January 1, 1952. The actual number of pensioners receiving benefits has been nearly 10% less than was originally anticipated—which is probably unique for a Government Social Welfare benefit. The Act provides for temporary loans to the old-age security fund to be repaid at such time as the Minister of Finance directs. If a pensioner leaves Canada his pension ceases except that if he is absent for not more than six months then on his return to Canada he may claim back pension for a maximum of three months in any calendar year. In Mr. Hansen's opinion, any income tax with rates theoretically sufficient to finance extensive Social Security benefits would so greatly reduce incentive that it would fail to produce the necessary revenue. He did indicate that it could be done by indirect taxes, though implying that this was undesirable. He thought there was no way of predicting the future trends of long-range financing of such benefits because such trends depend so completely on governmental policy.