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1954 AMENDMENTS TO THE SOCIAL SECURITY ACT

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KENNETH H. ROSS:

Once again we are indebted to Mr. Myers for having presented an accurate and concise report on amendments to the Social Security Act. With the frequent changes that have been taking place in Social Security, with respect to extension of coverage, increases in benefits and other liberalizations, it is extremely helpful to have the record set forth as clearly as he has done it in this paper.

I should like to discuss some aspects of the problems related to the extension of Social Security coverage to ministers and also to employees of state and local governments who are covered under an existing retirement system. One of the main problems involved is the integration with Social Security of the existing plans under which these groups are covered.

The fact that coverage of ministers was enacted on a voluntary elective basis creates some special problems when it comes to integration. Since the minister makes the election himself and pays the taxes on the "self-employed" basis, one point of view is that the local church, which normally cooperates with the minister in providing pensions, should not pay any attention to the coverage or noncoverage of the minister under Social Security. It might be considered, for example, that Social Security coverage should be treated as a purely personal matter entirely outside of any denominational program. On the other hand, because of the considerable benefits involved, especially in relation to ministerial salary levels, it is frequently argued that Social Security benefits should be taken into account in determining benefits under ministerial plans. A difference in trends has already developed, with some denominations taking the position that the entire cost of the existing ministerial pension plan should be borne by the congregations, thereby relieving the minister of his contributions thereto, while urging the coverage of the minister under Social Security; other ministerial plans have been amended to permit lower contributions by the minister, with corresponding adjustments in benefits, in order to make it easier for the minister to be covered under Social Security; and in other cases no action has been taken, which would indicate that, up to this point, no modification of the existing plan is to be made because of the availability of Social Security.

The problems related to the state and local government employees

already covered under an existing retirement plan are more complex. The main groups of employees involved are general state employees, teachers and other employees of the various public schools, state universities and state colleges, and employees (excluding firemen and policemen) of counties, cities, towns and other types of municipalities. The majority of states have existing systems covering their general state employees. Teachers have usually been covered under separate state-wide retirement plans of their own although, in some states, other school employees who are not on the teaching staff are in the same plan. In a few states there are state-wide plans in existence which are available for the coverage of the employees of local governments although, generally, these plans are operated at the local government level.

Prior to the 1954 Amendments state employees, including teachers, in eight states (*viz.*, Delaware, Iowa, Mississippi, Oregon, South Dakota, Utah, Virginia and Wyoming) were covered under Social Security even though they had previously existing retirement plans. The lead set in 1952 by Virginia was followed by the other states in repealing the laws and terminating their existing plans, becoming covered under Social Security, and, with the exception of South Dakota, enacting supplemental plans in addition to Social Security. In the case of the Delaware plan, the supplemental plan was established on an offset basis but the other plans provided for integrated formula benefits in addition to and independent of Social Security. Some state employees in Arkansas and Wisconsin were also covered under Social Security in a similar manner prior to the 1954 Amendments, although the teachers were excluded from coverage.

Under the provisions of the 1954 Amendments a referendum was held in December 1954 among the Arizona teachers with an affirmative vote of 10 to 1 in favor of coverage. In New Jersey the general state employees have, by referendum, elected coverage effective January 1, 1955 under an offset plan and a referendum for teachers has been scheduled for the current school year. In other states, coverage has been approved for teachers in Alabama, Kansas and South Carolina and possibly for other groups of state employees in these and other states of which I am not aware. In the Alabama referendum which was held in December 1954 approximately 86% of the eligible teachers voted in favor of coverage. In 18 states a referendum among teachers has been scheduled for the current school year or legislation permitting the holding of a referendum has been enacted. In the remaining 17 states, the situations differ widely although, in at least 6 of these states, the state associations of teachers are strongly opposed to Social Security coverage.

In connection with the resistance to Social Security coverage of teach-

er groups in some quarters, it should be borne in mind that the majority are women and that the survivor benefits under Social Security are not as valuable to them as they are to groups of predominantly male employees. Furthermore, many teachers retire on full pensions in their early sixties or even in their late fifties after long periods of service and consequently the Social Security minimum retirement age of 65 constitutes a serious disadvantage in the teaching profession. If the House Bill lowering the age to 62 for women should become law, there should be a distinct improvement in the situation related to retirement age of teachers.

W. RULON WILLIAMSON:

When Frank Lloyd Wright had outlined his philosophy of functional architecture to a largely feminine audience at New Haven, an elderly spinster pleaded: "But, Dr. Wright, you really do like our beautiful Yale gothic, don't you?" "Madam," his reply is said to have run, "if you think I like these pedantic imitations of useless European filigree, my whole lecture has been an abysmal failure."

For 20 years I have attempted to throw my influence into slowing down the momentum and changing the course of the Social Security juggernaut. If, after 20 years of sporadic comments on this effort, my fellow actuaries think I long for more governmental interference with the thrift and insurance habits of our citizens, *my* communication line has failed, too.

The 1954 Amendments, on which Mr. Myers has so promptly reported, were particularly impressive to me—and oppressive—for in 1952 I had hoped for a change. In 1953 I had had some talks with the staff members of the Curtis Sub-Committee as to the Social Security of the ILO imagining—an autonomous entity above the Government. I mapped out for them some differences between level-premium life insurance, which collects in advance to meet the costs of risks which advance with age, and the tax weapon judiciously used under an up-to-date slogan, "fly now, pay later." I also attended the 1953 Hearings of that Sub-Committee. Ex-Commissioner Altmeyer readily gave assent to the peak point of the inquisition: "There is no contract in OASI and no guarantee." Having built for years upon the Marxian "inevitability" thesis, he implied that nothing could block the progress of the noncontractual OASI. The *Hearings* appeared in print but the *Report* of the staff director to Mr. Curtis was delayed until it was known that a Democratic Congress had been returned well after the 1954 Amendments had become law—*post* and perhaps *propter*.

The Hearings on those 1954 Amendments largely ignored the work

of the Curtis Sub-Committee. The Ways and Means Committee of the House accepted only organization witnesses with, so far as I know, the sole exception of Mr. Linton. The Senate Finance Committee Hearings permitted individuals to speak—briefly. The Press, believing it to be a fixed fight, were perfunctory in attendance. Senator George, disapproving the addition of farmers, said he would vote against the bill.

In August 1955, Mr. Myers and Mr. Mitchell asked me to attend the 20th Anniversary of the signing of the Social Security Act. I sat in the front row with Mr. Richter, Mr. Latimer and Mr. Wandel. In the second row were Mr. Linton and Mr. Myers. In the facing seats were Mr. Witte and Mr. Folsom. Mr. Witte's recollections of 1935 showed that we were again intentionally copying that Europe of status and hierarchy and innocent childlike laborers which we had emulated in copying Workmen's Compensation. Mr. Folsom's warm approval of the general unanimity in the Advisory Councils raised the ghost of the Europe of recent years—the arbitrary managed economies where men vote alike and where they call the method democratic.

From the start of the Social Security era in 1934, the managing elite (anonymous to most) has had little effective opposition. These matters are made to sound technical. It seems to me the actuary has been apt to follow my bad dream of throwing the switch, rather than refusing to throw it. Selling what is believed to be popular is easier than inspecting the product for flaws. As the 1954 Amendments passed, I laid aside present problems to study the historic backgrounds to Social Security. I am interrupting that study—I hope advantaged by it—to file here some comments on those amendments and their cumulative departure from the American way. Like the delay of the Curtis Report, perhaps the comments will be printed after the structure of the 1956 Amendments is determined. They may form, however, the rough draft for my testimony before the Senate Finance Committee Hearings on those Amendments.

As most instructive evidence of intent, method and limitations, I recommend to actuaries the perusal of *Bureau Report No. 17* (Research and Statistics, Social Security Administration) and *Actuarial Studies Nos. 41, 42 and 43*. It seems that our treatment of Social Security has been to meet temporary needs by permanent systems, largely deferred-functioning, and exclude from the permanent program most of the needy cases which raised the question of treatment. As they proliferate, we have continued to beg the questions of functions and aims. We have treated our citizens as credulous children, too dumb to reason.

Cautiously, to this actuary it seems that essentially that system today is bankrupt, financially and ethically.

Mr. Myers' paper is a highly condensed summary, with a voluminous bibliography. A trace of that unanimity, praised by Mr. Folsom, follows from Mr. Myers' ubiquity in the Legislative Committees, the Executive Departments, and actuarial bodies. In connection with Mr. Myers' paper on the 1950 Amendments, I pointed out what I believe to be an untenable use of perpetuities, of interchange of percentages and dollars, the use of interest discount when little interest is being paid and the usual misuse by others of intermediate estimates, in these insurance discussions, as real. At the Casualty Actuarial Society last fall I used some illustrative figures, which Mr. Myers saw for the first time at the panel. It was an informal discussion with no rebuttal and no record. I am here pursuing those two discussions a little further.

For my bibliography I will select Colin Clark, von Hayek, von Mises, Letters to the Editor in the *Wall Street Journal*, some recent lead articles in *Barron's*, *Bureau Report No. 17* by Ida Merriam (suggested as Mr. Cohen's successor as Director of the Division of Research and Statistics), *The Cost of Social Security*, ISSA and ILO, and *Actuarial Studies*. Yet, in somewhat the same way as Mr. Myers, I rely also on my own familiarity with the subject, Government Reports and the telephone.

### 1. *The Build-up*

The Reece Committee on the Foundations dealt mainly with the problems of teaching—the long-run revolutionary aims of substituting the group for the individual, the consensus for individual logical thought, and socialization for capitalistic laissez faire. While analyzing the learned professions, and what Dr. Schumpeter called “The March into Socialism,” they avoided discussion of Social Security. *Bureau Report No. 17* would have been as rewarding a textbook as some of those quoted in the Hearings to illustrate the rise and unhesitating acceptance of statist propaganda. Here show up the limits to our knowledge in a compartmentalized approach. The Curtis Sub-Committee said OASI was not *insurance*, that, as was assistance, it was a set of almost complete *gratuities*. The ILO, the American Fabians, and a large coterie of erudite professional people have promoted transfer items to stimulate purchasing power and reduce funds for investment. Continual repetition of unconvincing statements does not convince me. When we opened Pandora's box, assorted human ills came out; time has not made them into good fairies.

The Foundations Hearings brought out a story that did not *name* Social Security at all. But it shows so parallel a case in connection with *education*, that a reading of the reports would show a lot that has taken place in Social Security, too.

## 2. *The Protean OASI*

The use of taxation for favoritism to special privilege is not new. It has in the past at times been declared unconstitutional. But this OASI taxation which this year seems to be 90% direct transfer from job-holders to retired or minor job-holders, orphan children and their mothers, has mingled so many strands that I have difficulty in naming the rope. OASI started as Benefits to the Aged, was presented to the Supreme Court as essentially gratuitous relief, approved as such, and when changed (in name) to *insurance* did not return to the Supreme Court for a new bill of health. But in Congressional discussion, and Departmental discussion, it has been treated as:

- |                     |                              |
|---------------------|------------------------------|
| a) thrift           | h) individual equity         |
| b) savings          | i) means-or-work-test relief |
| c) investment       | j) logical right             |
| d) insurance        | k) labor favoritism          |
| e) annuities        | l) masculine supremacy       |
| f) pensions         | m) extra largess to the rich |
| g) self-sufficiency | n) age-group favoritism      |

Starting with Benefits to the Aged, OASI in 1939 added survivors' benefits to orphan children and their widowed mothers, to aged widows, to dependent aged parents, and small lump-sum benefits at death. According to *Actuarial Study No. 43*, the cost of these death benefits has now reached nearly \$3 billion—or the entire employee tax. It's really quite a "camel in the tent." Charging up the cost of current benefits first against the workers' taxes, it would seem that the employees to date had paid nothing for primary and aged wives old-age benefits—which are much more expensive in the long run. Now that a new camel, extended disability, is wiggling in, papers like Mr. Kelton's suggest questions as to claims handling and the probable Federal attitude and costs. The many-sided disability experience raises questions as to the adequacy of review before the 1955 House Hearings—or lack of them—on the Disability Amendment, which has been pushed for a long time without very explicit or adequate consideration of the way Federal largess differs from the individual P.T.D., under which a man, mainly buying life and annuity insurance, adds somewhat more for disablement. The treatment of *Actuarial Studies Nos. 37 and 43*, especially the revaluations of 37, are indicative of the value of more comprehensive study over time to check up the hurried results of deadline imposition.

These three protections—old-age, death, extended disablement—are three very different things. They need much more separate study. Disability experience seems very largely affected by the insured's belief as to who pays the costs.

### 3. *Age Benefits*

The basic program of age benefits in the 1935 Legislation began to be crowded by the death benefits added in the 1939 Amendments and by many other things in the proposed Murray-Wagner-Dingell "Comprehensive Protection." Old Age came back into the limelight again in 1949 and 1950 and has since then been largely ballyhooed for expansion. But among the old, the oldest—the longest separated from past jobs or from deceased breadwinners whose earnings they shared—are largely excluded from benefits under OASI, and, when included, are in receipt of much smaller monthly benefits than the sturdy lads under 70 (Justice Holmes, "Ah, to be 70 again!"). Women are more largely left out than men. The tie-in with the payroll discriminates against our larger and better half who in advanced age serve as a text on need, but are then passed by on the other side by Levite OASI.

### 4. *The Chameleon Wage Base*

In 1935 and 1939 there was vigorous claim that tabulated taxed wages were to be the basis of benefits. And in Baltimore upwards of three billions of wage reports have been processed, cards punched and the individual records posted. But the zeal for reflecting those accumulated wage records (with their ancient history in good dollars) in corresponding benefits has abated. Today benefits are more and more settled on the highest year-and-a-half of the banner earnings since 1950—bigger earnings of dollars with diminished purchasing power. Men coming down from steady earnings well beyond the maximums tabulated—\$3,000, \$3,600, \$4,200—may use those old good dollars, but men going up are happy to forget the steps by which they climbed. One and a half years against a 50-year work record represents 3% of that period, a most unrepresentative base.

The average taxed earnings of the early years were under \$900. The recent average taxed earnings are \$2,100. An average from 1937 through 1955 runs about \$1,500, but under the 1939 idea of using also no-earnings quarters—which have made up some 35% or 40% of all quarters, at least—the average for all now of record from 1937 onward is below \$1,000. Under the 1935 formula that would have given \$29 a month benefit; under the 1939 formula, it could have given \$27, but with \$13.50 to a qualifying wife. But under the 1954 formula, it could give \$98.50 and \$49.30 to the wife, through the drop-out provisions. Thus the man's age benefit would be well in excess of his over-all reported earnings level.

Census Report P-57 month after month shows more than 95% of men from 25 to 55 as in the labor market with only 2% or 3% of them un-

employed. And these men are expected by OASI to leave most of old-age support to others. Three-fourths of men of 65 are married. Half of the men of 80 are married. Most of those wives at these high ages have not belonged to the labor market. So the appeal now to those around retirement point—to the major part of them—is for  $1\frac{1}{2}$  times the primary. Arrangements are built in for a temporary lag, but soon \$100 a month primary, \$150 for the man-wife team, could average beyond \$125 for the married and single together. Lately the poverty line has been set at \$2,000. Earnings at that level for women would represent \$71 a month OASI benefit. It is being well-hammered in that exceptional earnings for  $1\frac{1}{2}$  years is enough to qualify. For men and women together the expectation must be \$100 a month. With a recorded 19 years' wage-base of \$83.33, this means a pension of more than the recorded earnings. The upward-rocking course takes a Dick Tracy to unravel. But pension at full wage is an expensive luxury.

When all the employees' money in OASI taxes can be said to have gone for life insurance benefits, it seems to follow that no payment whatever has been made by the workers for old age. Then to give the largest gratuities to those with the highest wage record and the smallest to those with the lowest, but in both cases largely ignoring the major part of the wage history, is a numbers game that borders on the fantastic.

### 5. *Dollars for Pennies*

"He paid for it" has become a familiar refrain in this discussion. Carrying the bookkeeping through 1952, the staff of the Curtis Sub-Committee showed that for all the age beneficiaries taken together the return was a dollar for two cents. Several years ago I talked about a dollar for a nickel. But if the death benefits come first, and supplementary contract reserves are put up (and there is considerable talk about the *integrity* of the reserve), the age benefits have become "dollars for free."

The employer's contribution, if made for each individual (though there has been consistent official theory that it should not be so allocated), might replace the two employee cents spent for death benefits by two bright new employer pennies for old age.

The self-employed hadn't been in long enough to put in their two-cents worth, but, had they been, they might have been asked to put in three—two for life insurance and one cent for the old-age dollar (maybe another way in which the entrepreneur exploits the proletariat—that free penny).

### 6. *The Clouded Crystal Ball*

While the past seems to be a matter of most voluminous record, the years from 1929 have included a sharp break in earnings, a gradual



recovery, wage stabilization in a war, and then a rapid rise—the rise still going on. Under the managed economy of the last twenty years there has been a dollar of withering purchasing power, there have been long periods of rationing, reduced home and car construction, and under progressive taxation a most emphatic leveling process. There has been state control, steadily appearing in new aspects of our folkways. Changing mortality, birth-rates, retirement, free choice and pragmatic philosophy about the goals of life and learning make a dependable reading of the future more complex. *Bureau Report No. 17* goes ahead 20 years quite courageously, since, off there, there is to be much more national product from which to pay today's left-over bills. The level-premium life insurance technique of individual premiums for each age cell, where premiums and claims balance, has given way to open-end accounts that never balance. As in the old assessment insurance, those with the largest risk are carefully excluded, so that decades pass by before the liabilities emerge. In the meantime, there is almost a complete divorce between what a man puts in and what he takes out, and a continual scrambling of the component elements.

In the new medium—new to self-sufficient individualists—the actuary makes projections, each low and each high an artificial synthesis. He matches the high benefit against a consistent taxable payroll. He matches the low benefit against a different payroll. The resultant ratios may come rather close together. And he can go way off into space in the process. In fact, large changes are expected after the close of the century. He can look back to the sequence of events of the past, but he can not reproduce *them* for the future. Two time series evolve (lately both assume pretty persistent escape from the correctional hesitations of the past), showing dollars of benefits—the dollars held down a bit from the prevailing optimism (or tendency to wither)—and percentages of payroll. From these, comes an artificial medium or intermediate series, which disclaims reality but is used as most dependable in the biennial—or annual—“strengthening” (which I interpret as “weakening”).

*Bureau Report No. 17*—the tradition of Altmeyer, Falk, Cohen, Merriam—says that the reports of the actuary assume automatic change in those benefits as history unrolls—that the *dollars* are not to be taken seriously at all. In that case the reserve progress of the actuarial synthesis would not run the same. Mr. Myers once wrote an article on the use of logarithmic charts: “You don't have logarithmic eyes.” I extend the thought to these suggested adjustments: “You don't have Keynesian eyes.” Von Mises hopefully says that the weakness of Socialism lies in its inability to conduct economic calculations. We can be pretty sure from our familiarity with deficit finance recently, that as reserves pile up they

encourage liberality, so that the high projections won't run that way, and that absence of reserves will be apt to be treated along the line of casualness shown to employers' contribution to the Federal Civil Service account.

In the alternations between dollar progress and percentages in these studies, I am reminded of our neighbor whose doctor had cut her coffee quota to one cup a day. She promptly bought a cup that held a quart.

### 7. *Accruing Benefits*

In OASI we now have three distinct benefits to consider:

- a) Life Insurance—Orphans, their Mothers, Aged Widows, Dependent Parents
- b) Age Benefits—Primary and Aged Wives
- c) Extended Disability Benefits

The last-named only got well under way in installation of the machinery for handling medical certification of disablement in the 1954 Amendments—step one in a long-announced program for cash benefits to such extended disablement cases. The 1955 Amendments that passed the House added cash benefits as an extension to disabled orphans beyond 18 and disablement of workers beyond age 50 (the lion's share of the cases). There is great patience in advancing toward the objectives. It is here, but I will not add accruals in this discussion.

The annual life insurance cost is dealt with in *Actuarial Study No. 43*, not yet off the press. It runs nearly \$3 billion a year, if we assume the establishment of appropriate supplementary contract reserves at each death.

The residual annuities for primary beneficiaries and aged wives, as I have indicated in (4) above, may well be viewed as \$100 a month for each retirement. Assuming 150 months of benefit payment prospectively, and then cutting by  $\frac{1}{3}$  for deaths before retirement, 100 months at \$100 a month could be \$10,000 in benefits per covered life. Covered lives have for some time been referred to as numbering 100,000,000, though the first tax is still to be paid by many self-employed whose jobs became taxable in the 1954 Amendments. At that \$10,000 rate per life, we are having a trillion dollars of potential expected payment eventually. The span from age 18 to age 65 is 47 years. Spreading the accrual over all those years would give a yearly amount of \$21 billion per annum. I don't discount at interest. While we seem to have nearly \$40 billion of claims reserve at end of 1955, the interest-bearing trust fund is but \$21 billion—cutting the apparent interest rate in two for that reserve, with nothing of interest accrual for the nonretired.

The accrued liability of \$24 billion for (a) and (b), and nothing for (c),

nor for the extra for earlier women's benefits in the 1955 Amendments, nor for the belated dragging in of dentists, lawyers, Federal civil servants—this is to be matched against aggregate tax collection from 1937 through 1955 of less than \$40 billion. That aggregate tax is less than 7 years' 1955 rate of \$6 billion. It is less than two years of the accruing liability of \$24 billion. The \$21 billion trust fund is then down to less than a year's accrual. The new classes of entrants before whose eyes are dangled great bargains might consider themselves somewhat disadvantaged by the alliance. Many state and municipal and federal analyzers, considering the cuts in what they had thought accomplished provision, are quite unenthusiastic about the new alliance. The Federal employees watch the Federal Government pass up the Federal contribution—and hearing Chairman Ramspeck a few years ago tell that existing pensioners had contributed only 15% of costs, they have right to some cynicism about the integrity of the bigger reserve which in OASI is only half the claims requirements (and that figure left out some items). It is going to be quite a job to match the pears and apples of these plans.

#### 8. *Accrued Liability*

A report from Mr. Myers some time ago gave \$280 billion for the accrued liability. Since that report he has jacked up somewhat the expected outgo of 1955, so I am rounding out the accrued liability to \$300 billion or by some 7%.

Since, so far as I can see, all the interest will be needed on the claims reserves, \$450 or \$500 billion might be wiser figures at 0% interest, where the time element involved would increase costs much more emphatically than for claims alone. Section 1104 says the system is subject to change or termination (repudiation is a harsh word in reference to nonguaranteed benefits). That safety-valve or escape hatch is rarely mentioned by the Administration. *Bureau Report No. 17* stresses "assured" and "depend upon" as though the author believed the liability valid. This would double the national debt. The slender \$21 billion trust fund is but 7% of the \$300 billion, or 4% of the \$500 billion I have preferred.

And far from helping too much, the negation of current payments to the needier aged raises vigorous question as to our rights thus to mortgage our children's budgets in the future for rights we refuse to pay now.

#### 9. *The Curtis Sub-Committee Bookkeeping*

The Curtis staff included economists, lawyers, accounting-statistical folk. They did a good job of chasing the money-flow through tax, the budget, and the trust fund. They found the erratic practice in the Bureau of the Budget of losing a few billions of dollars from the basic budget

under the planted delusion that this gigantic gratuity-mill is a *business* (what Elmer Roberts called "monarchical socialism" in Germany). They found special favoritism, too, to men going home to Italy or Canada, where the work clause would not affect their windfalls. They found that the aged beneficiaries got—or expected to get—a return of 50 times what they had paid in, even ignoring the life insurance costs. Allowing for those life insurance costs first, age benefits were *free*—an infinite return! They saw that for such folk self-sufficiency was just a come-on word.

A letter to the Editor of the *Wall Street Journal* recently, commenting on Social Security, said: "It took those other bubbles, the Mississippi and the South Sea, quite a while to be punctured, too." The writer must have been reading Mackay's "Some Popular Delusions and the Madness of Crowds," where an analysis of 1840 was made long enough after the particular delusion, so that the slowness of development had worn off.

#### 10. That "Contributory" Label

The Germans and the Americans and the British have variously adopted that "contributory" label in Social and Group insurances. From my earliest acquaintance with it, it seems to have put rubber into economic meaning, double meanings into wage allotments; it defers finality for current accounts, it replaces individual by communal property. We build the mood of "Little Man, What Now?"

Contribution comes into play to deal with risks advancing with age in life insurance, extended disability, life annuities. When allotments for these risks on people of many ages are pooled, without the holdback of employer contribution, the young see that they contribute to the costs of the old. Under the split provision, there may be a reduction in tax requirements. But employer-pay-all would reduce *them* even more. (In such statements there is the customary assumption that tax practice will be rigid.) That is, one artifice of destructive progressive taxation is mitigated by a second artifice of reducing admitted wages subject to the income tax, throwing, in pensions, amounts over to later time when it is assumed the worker's income will be less. When it is Government involved—speaking of England, Colin Clark, in *Welfare and Taxation*, says: "We have been trained by the politicians of all parties to regard the State as a benevolent Father Christmas. 'Whatever you want,' they say, 'be it education or medicine, or orange juice, or false teeth, ask the State for it, and, like a delighted child on Christmas morning, you will find it in your stocking at no expense to yourself.' Are we such children as that?"

That attitude of benevolent "lady bountifulism" is the soul of Social Security and of *Bureau Report No. 17*. I like better Colin Clark's further

comment: "Give the state not the maximum but the minimum of powers and duties."

Contribution theory is designed to hide basic differences in risk, to reduce adult understanding, to save tax payment to one group now, and to load future tax payments with larger debts.

### 11. *Perpetuities*

Fifty years ago men were protesting that certain individuals had devised perpetual trusts for purposes which had become obsolete. It was the problem of "the dead hand."

Today, the dead hand has provided funds which today's little dictators shape into new perpetuities. Such uses would frequently be anathema to the man who made the money. It is also anathema to many who see the much further reach of the living hand than was exercised in the older case-studies. It is a new and, were it secretly operated, a rather frightening aspect of power. But a tower set on a hill cannot be hid, and such perpetuities may be counteracted.

Perpetuities—planned perpetuities—like OASI discount future burdens at an interest rate not being received, giving delusively low costs. There is a sound prejudice about making snap judgment decisions of a small clique thus rigid. As von Mises aptly and frequently observes, socialism—rejecting the price-determination of the free market—is deficient in economic calculation. While that deficiency is bad for the short haul, it is much more serious for the long haul.

### 12. *Interest Earnings*

Mr. Linton, Mr. Hohaus and I had all made various comments on interest in connection with the old-age benefits reserve account back in the early days. George Buchan Robinson, who worked with a scalpel, rather neatly belittled our comments, and sold that attitude to two New York papers and one or two in Chicago. Some of those comments are recorded in various philippics. Some are embalmed in manuscripts which were not published. One thing he saw was that when you didn't collect interest, you had to pick up the amount in taxes elsewhere, and that the absence of something assumed to just come in could involve serious financial error.

When interest return is large, from large reserves in Social Security, the Nation is commonly collecting money, said to be for purpose "A," which is spent for other things.

In the 1935 forecast to 1980 we were to have by 1980 two-thirds as much interest as we collected from employees and employers in taxes. The forecast for 1955 showed one-third as much interest income as tax

collection. But in fiscal year 1954 we collected only one-tenth as much interest income as tax collection, and the proportion seems to be steadily dropping.

There was vigorous argument in 1935 that the prospective 10% benefit cost was too much to foist upon the contributors of 1980. So they said it was necessary to pile up the huge \$47 billion reserve (that Senator Vandenburg, with appropriate suggestions from Mr. Linton, called the \$47 billion blight) to lighten the load. Mr. Morgenthau, Mr. Reagh and, later, Mr. Wilcox wanted "honest accounting." This discussion carried on into the Advisory Council of 1937-1938. Then we dropped the "too much" from 10% to 9%—partly because the interest rate was coming down, and at a lower rate of interest we couldn't amass so much from that source. As now we look at a 9% tax rate calmly set down for collection somewhat later, quite in keeping is the thought in *Bureau Report No. 17* that we can afford what we want to afford—meaning what a particular zealot has decided to engraft upon the Social Security tree. In a way, all that discussion on reserve seems to have been a sort of red herring to deflect attention from the fact that what we were doing was basically untenable. While we were considering ourselves very sophisticated, Frank Bane assessed our place as "experts on tap, but not on top."

### 13. *Correcting Wrongs*

The Curtis Hearings reviewed many anomalies. The aged widows fare worst. The seniority-conscious men who have recently doubled or tripled their dollar incomes (frequently by Robin Hood methods, too) have fared best. Much of our early rationalization of the "You wouldn't let them starve, would you?" implied that these benefits were for people in need. We do include *some* of the underprivileged at \$30 a month. But we mainly care for the overprivileged at several times that figure. There are made-work jobs for 1½ or 2 years to qualify the neediest. It is suggested that it would be simpler to give them the minimum anyway.

All our aged are the victims of inflation, but we deal most generously with the well-paid prodigal who spent it all. We have painted ourselves into a rather cramped corner.

But the major righting I stress here is to change priorities. Instead of putting Government first, I should put first the individual's own provision that he makes for himself. Then second comes mass provision of employers, unions, voluntary associations. Only third should come a sort of blanket or tent treatment from the Federal Government—and that on a temporary basis, while we *start out*. Gratuities and relief would become the local government much better.

#### 14. *The Spirit of Robin Hood*

Lacking definiteness as to function, certainty as to calculation, conviction as to policy, the large range of tolerance as to costs has rounded out into the tolerance of brigandage. When a nation begins to be generous with the funds of tomorrow, when "tax and tax, spend and spend" has become accepted policy, a biennial give-away can take place without the batting of an eye. 1954 was but an episode in the course—and as I write, not even the most recent episode. 1942 was to have been the first year of monthly benefit payments, probably at around \$16.50 a month. 1939 brought the recasting that added survivors' benefits. Payments were set ahead to 1940, the primary averaging \$23 a month. This generosity was explained as counterbalanced by reducing later benefits. (That could be corrected upwards again later!)

In 1954 new benefits to the men who could use the gimmick of drop-out quarters averaged \$87—the real earnest of expectations—while the over-all average was but \$57. When the top is \$108.50 instead of \$98.50, and the next round of wage boosts has rolled up, the \$100 a month expectation with \$50 additional for the wives seems logical. The 1955 party competition added a lower age for women, two close-ins on extended disability—orphans over 18 and insured persons over 50.

Each such expansion lowers the relative weight of the trust fund, increases the scope of the deficit. Competition for the Robin Hood crown seems to make the liberalization an annual affair. The victims go unnamed.

#### 15. *The Loss of Personal Control of Property*

When I buy a house with an amortizable mortgage, I watch that mortgage fall and, if I don't do it too slowly, my equity rise. When I buy an investment type of life insurance, I watch my equity, the cash value, grow. I have a sense of budgeting and appreciate the aid of interest accruals—and mortality accruals too.

But in OASI, a man can see the huge windfalls in these years, now nearly twenty years after the taxing start, perhaps following a sort of logistic curve (Spiegelman, *Introduction to Demography*, page 247). We seem to be at the point where the outlay curve really turns up. No Elizur Wright has sold the idea of any specific personal equity in the OASI trust fund. Further, the citizen knows, in spite of easy euphemisms about it, that his money has been spent—and spent mainly on the claims of those winners who got there first. The winners have no intention of paying it back. The rest of it has gone, he might like to feel, into the Federal contributions to Public Assistance. The assistance recipients don't expect to

pay it back, either. One set of recipients has had a windfall of most of their payment, the other, it is said, of all of it. Yes, it may well be spent twice (and raised twice)—once for charity to others, once for charity to him. This communal share in an undeveloped fund, if precedence is given to claims, is zero, or negative. And how we would handle the favoritism that collects only 75% from the self-employed, if we really tried to determine equities, is another minor unsolved problem. The trust fund in 1949 was 20 times the benefits disbursement of that year. It is now down to 4 times the 1955 benefits. Employers who deduct half the OASI grant to a retired employee from *their* pension to him, on the ground that they have paid for it in OASI by their taxes to OASI, run counter to Mr. Altmeyer's thesis that the employer taxes are socialized, to be deployed where they are needed. This uncertainty as to rights is a drastic loss to the citizen. For a carefully funded pension plan, this governmental help from a thinly funded program raises questions of another kind of equity.

A rising tax program—and there now seems to be no end to that steady advance—must be much less attractive than personal advancement and estate accumulation. *Actuarial Study No. 41* and its predecessors could show that when the older man balances his personal income against the heavy progressive taxation of the past, this new compensation from his fellows is still inadequate. Many a new beneficiary today, too, is most unhappy at becoming a dole receiver. But he knows the prodigal will take it, so he capitulates. He has a strong sense of robbery—and he knows that he is not guaranteed this compensatory OASI grant, either.

#### 16. OASI Growth

The growth in benefit level and the growth in coverage are important, the former more so. Lately one of the catch-words has been "maturity," and another has been "universality." A defective plan is not wisely matured. A wrong plan should not be made universal. A good universal plan, radiating mature wisdom, would be quite different.

Before the 1939 Amendments, I graphed out the apparent results of wide early denial of benefits as an undue later aggrandizement. It is working out that way, and in an exaggerated form. The 1935 projection for 1955 benefits ran \$887.8 million. The 1955 projection for 1955 is \$5.4 billion—six times as large. The 1935 projection for 1980 was \$3.5 billion (40% to be paid from interest). The 1955 projection for 1980 is \$16 billion or 4½ times as large. If 25 years hence a six times expansion took place, 1980 might see \$96 billion spent. Mr. Modlin, in *Law and Contemporary Problems* for April 1936, said: "The reserve account is thus simply a bookkeeping device within the Treasury. Its principal purpose is



to indicate the existence of a formal claim against the Federal Government for funds that will be devoted to the payment of old age benefits. The existence of such an account gives a degree of permanence and contractual certainty to the program, thus tending to preclude any alterations in the contributory tax schedule or in the scale of benefits as changes occur in economic conditions or political propensities."

But that is not the way it worked out. Radical changes were made in 1939. The sequence of contribution rates has not been carried out. There is no contractual certainty to the program. Changes are readily adopted. Projections may be made for a hundred years, but they are no longer taken as a guide, save for a momentary assurance that what we want to do we can thus justify. At once more expansion is zealously advocated. They have become just biennial or annual building blocks to Utopia. There is no unanimity as to where we are or where we are going, though we are always poised for the next flight. There *are* well-integrated, small groups, speaking in bureaus, in panels, in universities, and in various precarious countries around the world, which speak easily of the "wide area of agreement." They seem to take the cue from Orwell's 1984.

#### 17. *Negation and Affirmation*

I distrust this structure. England, France, Germany have suffered from the regimentation of the earlier models. The whole thing is alien to our heritage of personal responsibility, wide choice, and a willingness to accept the results of the choices made. It is not too late to face the monstrosity with understanding of its weaknesses—and a decision to surmount them. We have let the hucksters of tawdry panaceas delude us too long. We can manage our personal funds outside of Government. If we institutionalize charity, we can call it by its right name. We can still think, we can *limit* the Federal Bureaucracy. We can get the priorities clear. We can recapture the initiative we have lost. Let's get to work on that project!

GEORGE W. K. GRANGE:

In this paper Mr. Myers has done his usual competent job of bringing us up to date on what transpires in the field of Social Security legislation, more particularly as it relates to the Federal Old-Age and Survivors Insurance plan. He speaks with the authority of one who has been closely associated with the thinking and discussion from which policy and legislation in this area are forged. He has served well as a valued consultant in most, if not all, the significant discussions that have shaped that system since its inception in 1935. This Society is indeed fortunate in having him available to keep us historically and factually oriented in this most important area.

So far this is all to the good. However, in looking over the pages of our actuarial journals for the past decade or so, one gathers the impression that this country stands in need of a competent, realistic and widely understood body of doctrine relating our social security to all the many and varied aspects of life for which it has significance—a philosophy that will be a potent touchstone for new social security proposals. There is reason to believe that, lacking this, our lawmakers are in great danger of finding themselves dominated by forces making for the unhealthy expansion of an institution still largely untried, and which, like fire, can be a good servant but a bad master.

Without enlarging further on what I find an intriguing theme, I feel sure, not only that there is room in our pages for papers and discussions that bring a disciplined and wide-ranging imagination to bear on the problems and potentialities of social security, but that there is a vital need for this sort of thinking, and our profession has a special obligation, by reason of its special training and strategic situation, to make its appropriate contribution in much fuller measure than has so far been apparent.

Even in relation to our own business of life insurance I think the actuarial profession has largely missed an opportunity to render a vital service to the nation. I refer to what strikes me as a large measure of failure to make clear, both at home and abroad, the highly important part that private insurance has played in bringing “social security” to our people, as well as to elucidate how private insurance and governmental programs can, should, and do interact and cooperate to this end.

In this connection I should like to call your attention to a praiseworthy attempt to remedy this deficiency in the international field in the form of a paper by Chester C. Nash, Director of Life Insurance Information of the Institute of Life Insurance, appearing in the July 1955 issue of the *International Labour Review* under the title “The Contribution of Life Insurance to Social Security in the United States.” Great as may be the achievements recounted by Mr. Nash in this paper, large possibilities undoubtedly remain, and I feel sure that the broadening and deepening of understanding which our profession could foster in this area would stimulate still greater accomplishments. I can think of no more appropriate subject for intensive research by actuaries, with presentation and discussion thereof at our meetings.

Among other areas abounding in issues which our profession might appropriately explore, and where they might even find scope for their mathematical and statistical talents in evolving suitable techniques, I shall mention only one—that of the interrelated roles of our Federal,

State and local governments and our various nongovernmental institutions in furnishing protection for our aged and other dependent groups. Here we find an existing situation which is in many respects chaotic and baffling (*e.g.*, the matter of Federal grants-in-aid). It is a vastly complicated area in which there is great need for research to elucidate facts and determine principles, with a view to defining roles, eliminating opportunities for abuse, and introducing, not uniformity, but a proper coordination of effort.

The Commission on Intergovernmental Relations, under the chairmanship of Mr. Meyer Kestnbaum, has done some valuable research in this area. The Commission's report of June 1955 and many of its committee studies are now in print, and can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C. Valuable research has also been done by a New York State Temporary Commission on the Fiscal Affairs of State Government, whose final Report of last February deals largely with Federal-State and State-Local relationships. I understand that this Report and the staff studies on which it is based will shortly be available in print. Actuaries would do well to familiarize themselves with the work of both these commissions, as well as with what commissions in other states may have made available, and give serious thought to what they too might contribute to thinking in this difficult but crucial area.

(AUTHOR'S REVIEW OF DISCUSSION)

ROBERT J. MYERS:

As is generally the case, the discussions have added some interesting and valuable supplementary information. Mr. Ross has focused on the problem of extension of coverage to ministers and to state and local government employees under existing retirement systems. The first scattered returns that he gives as to elections made by the latter group are indeed interesting. It is to be hoped that after "the dust settles" and most of such elections are out of the way, a more complete report may be made thereon.

Mr. Grange has made some interesting remarks about the need for an expressed, developed doctrine of social security so that this institution is not expanded in an unhealthy fashion. He also points out the need for intensive research and study by actuaries in various types of governmental activity where their particular professional training would be helpful. Such a course of action is highly desirable, and even essential, on the part of actuaries both in and out of government. At least in the

latter respect, it is indeed unfortunate that more qualified actuaries are not being attracted to, and retained in government service.

Mr. Williamson's lengthy discussion cannot be fully answered at this point. He, of course, has many valid points of criticism, whereas others are subject to personal differences of opinion and debate. There are, I believe, several points that should be kept in mind when considering the "armchair estimating" that he does in item 7 and elsewhere. I would readily agree with results of some of these quick estimates, although in other cases I believe that there are certain important factors which he has neglected which would, if taken into account, make a significant difference.

More important, however, in considering Mr. Williamson's figures and his discussion deprecating interest as an element in financing the OASI program, is a look at the year-by-year projections in the cost estimates. According to our estimates, the ultimate cost of the OASI program (to be attained at least 60 years hence) ranges from  $7\frac{1}{2}\%$  to  $11\frac{1}{2}\%$  of payroll. Most of this cost can be met from the scheduled tax rate of  $8\%$  effective 20 years from now. Although this  $8\%$  rate certainly should be reasonably close to the benefit costs, I will not undertake to state whether a rate of this magnitude will be harmful to our democratic heritage. But certainly it should be realized that the system is not hopelessly bankrupt, nor will it require ultimate tax rates as high as  $20\%$ , as some recent articles have stated.

In discussing the growth of OASI benefit disbursements, Mr. Williamson points out that the actual 1955 amount will be 6 times as high as the estimate made in 1935 for the original act. Then, using this ratio, he states that the 1980 disbursements might be 6 times as high as is currently estimated, or \$96 billion. This arithmetic, it seems to me, is a bit too rapidly done, even though Mr. Williamson does not make this as a flat prediction (the casual reader, particularly the layman, might, however, so infer). Several factors are ignored such as the increased number of persons covered by the system (which automatically means more dollars of benefit cost, although not necessarily a higher cost relative to payroll—the basis of the contributions), the change in the philosophy of the program so as to pay more benefits in the early years, and the relatively large wage inflation during the last decades.

In regard to the latter point, it may be argued that we will have continuing inflation of wages, although in my opinion there will probably not be repeated the sharp increase that occurred in the 1940's. It is true that with a steady, even if slow increase in earnings, the dollar cost will rise, in part through the action of the benefit formula, but probably

more importantly through changes in the benefit formula which recognize the different earnings levels. I maintain, although Mr. Williamson apparently does not agree, that the important thing to consider is cost relative to payroll because that is where the income of the system comes from. Certainly, looking back in the past, it seems unrealistic to use the comparison of actual 1955 disbursements with estimates for that year made for the 1935 Act as an indication of the dangerous over-expansion of the OASI program. Certainly, when we go to purchase a loaf of bread or a new automobile, we do not refuse to buy because prices are twice or three times as high as they were 20 years ago, any more than we consider our present salaries in relation with those of 2 decades ago as being increased solely because of our own professional growth and development.

The view sometimes expressed that OASI contribution rates will not rise as scheduled in the law (perhaps because this occurred in the 1940's) is not necessarily valid. Thus, the predictive value of the history of the "freezes" during the 1940's is somewhat tarnished since the scheduled increases in both 1950 and 1954 did actually take place.

As to the legislation passed by the House of Representatives this year and now pending before the Senate, the changes involving increased cost are the reduction of the retirement age for women to 62, monthly disability benefits at age 50 and thereafter, and continuation of child's benefits beyond age 18 if disabled (the last involving relatively little cost). These are estimated to have a level-premium cost of about 1% of payroll (less than this in the early years and somewhat more ultimately). Counterbalancing this is a proposed *immediate* increase in the combined employer-employee tax rate of 1%. The amendments also involve some increases in coverage (principally to all self-employed professional groups not now covered, except doctors). While I am not taking any position on the desirability of these benefit changes, I think it is noteworthy that the estimated increased cost of the benefit changes proposed would be met by the proposed increase in contributions.