

FUTURE DIRECTIONS IN SOCIAL SECURITY

HEARINGS
BEFORE THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE
NINETY-THIRD CONGRESS
FIRST SESSION

PART 3—WASHINGTON, D.C.

JANUARY 23, 1973



Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1973

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Part 2. Washington, D.C., January 22, 1973.

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(Future hearings anticipated but not scheduled at time of this printing)

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FUTURE DIRECTIONS IN SOCIAL SECURITY

TUESDAY, JANUARY 23, 1973

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1224, Dirksen Building, Hon. Lawton Chiles, presiding.

Present: Senators Chiles, Fong, Williams, Gurney, Stafford, and Domenici.

Also present: William E. Oriol, staff director; David Affeldt, chief counsel; Val J. Halamandaris, associate counsel; Kenneth Dameron, Jr., professional staff member; John Guy Miller, minority staff director; Robert M.M. Seto, minority counsel; Dorothy McCamman, consultant; Gerald Strickler, printing assistant; Janet Neigh, assistant chief clerk; and Pamela Phillips, clerk.

OPENING STATEMENT BY SENATOR LAWTON CHILES, PRESIDING

Senator CHILES. The committee will come to order.

This is the third day of the opening round of hearings by the Senate Special Committee on Aging on the subject of "Future Directions in Social Security."

At the request of our chairman, Senator Church—who had a conflicting committee commitment—I am presiding at this session.

I am very interested in the many issues which are heard at hearings such as these. My concern is based partially on the fact that Florida has the highest percentage of persons past age 65 in the Nation. It is based, too, upon firsthand information I have received from the people of Florida in letters I have received and also in statements made at a conference on aging I called in St. Petersburg on January 12.

There, the individual citizens and the experts exchanged questions, answers, and viewpoints. In particular, the citizens wanted to know more about the Social Security system and the effects of the 1972 enactments. Despite the liberalization of the retirement test, for example, they wanted to know why the test could not be liberalized further. To many, it appears as if the Federal Government were penalizing them because they wanted to continue work, even though they were qualified for Social Security.

This is a difficult question, one which has received its share of attention already during the first 2 days of hearings and one which—I am sure—will be discussed further today and at hearings yet to come.

I am glad that today's witnesses are highly qualified to discuss another question that is receiving more and more attention, and that is the employee-employer Social Security contribution, or payroll tax.

Our first witness, John Brittain of the Brookings Institution, has just released a book criticizing inequities in the payroll tax and suggesting its burden falls most heavily upon the low-income worker. Mr. Brittain, I would like you to know that I, too, share your concern about the payroll tax and I introduced legislation last year asking for some changes. I should tell you, however, that our first two witnesses, Social Security Commissioner Robert Ball and Nelson Cruikshank of the National Council of Senior Citizens have raised questions about your criticisms. Yesterday, Mr. Cruikshank said he did not think—as you seem to suggest in your book—that workers are “fooled” by the argument that Social Security is social insurance, or some kind of annuity on which they collect what they put in. I know that you do not regard yourself as a foe of Social Security; you make that point clear in your book. But you do raise issues about the payroll tax that deserve careful attention, particularly at this time, when we have just concluded action on major Social Security legislation and now have some time to take a long-range view at next steps. I congratulate you for making such a stimulating study, and a timely one as well.

That same sentiment can be expressed to our second witness, Dean J. Douglas Brown of Princeton University. Dean Brown was one of the small group which developed the old-age insurance proposals later adopted in large part as the Social Security legislation of 1935. He has since served on every Social Security Advisory Council since 1937, and he, too, has just published a new book, “An American Philosophy of Social Insurance.” This book is, in a sense, Dean Brown's statement of faith in the original concepts expressed in the first Social Security legislation, as well as a description of how the system has grown far beyond any one of its first advocates could have imagined.

I believe that Dean Brown may well take issue with several of Mr. Brittain's arguments and I am looking forward to the exchange.

Our third witness is a former Social Security Commissioner, William L. Mitchell. Mr. Mitchell was a late addition to our witness list for these opening hearings and may have a supplementary statement later on. We are fortunate indeed to have even a preliminary statement from a person who has had the great responsibility of managing our Social Security system.

One final word and we will begin the testimony.

Pleased as I was by the historic improvements made during 1972 on Social Security—including a 20-percent increase and several important reforms in Medicare—I feel that we have a long way yet to go. Nationally, 3.1 million older Americans live in poverty, and about 2 million others are almost at that statistical level. In addition, in a program as vast as Social Security is today, constant attention is needed to assure that individual Americans receive courteous, intelligent attention rather than computerized rebuffs or arbitrary rulings. By and large, Social Security has managed to attain a high level of

performance in humane, efficient fashion. These hearings can help assure that this philosophy persists. Social Security is too important to all Americans to be damaged by politics or nonresponsiveness.

Senator Fong, will you proceed with your statement, please?

STATEMENT BY HIRAM L. FONG, U.S. SENATOR FROM HAWAII

Senator Fong. In adding my word of welcome to this morning's witnesses, it is appropriate to observe that, like our first two witnesses, Commissioner Ball and Mr. Cruikshank, all three testifying today are distinguished by their expertise on Social Security.

Dr. Brittain, as Senior Fellow of the Brookings Institution Economic Studies Program, is a thoughtful student of the Social Security system and its economic implications.

While his criticisms of the payroll tax as a method of financing Social Security, as set forth in his book, "The Payroll Tax for Social Security", are well known, it is gratifying that he is here this morning to discuss personally this viewpoint and other elements in Social Security.

Dean Brown, in addition to his outstanding qualifications as an economist, must be recognized as one of the forefathers of the Social Security system.

His interest and knowledge extends back 40 years. He, too, is author of a recent book which has elicited favorable comment. Entitled, "An American Philosophy of Social Security: Evolution and Issues", it offers a review of the 35-year period in which Social Security has been in effect.

This is a most useful tool as we look to future directions in Social Security.

Not the least of his qualifications as an expert is his service since 1937 on every Social Security Advisory Council. His direct comments on what he sees ahead for the Social Security system will be most helpful.

Our third witness, Mr. William L. Mitchell, is no less competent and brings special understanding because of his direct roles in actual administration of the program. His connection with the system also dates back to its beginning in 1937, when he was named Assistant Executive Director of the Social Security Administration. Later he became Deputy Commissioner and from 1959 to 1962 served as Commissioner.

Mr. Mitchell was succeeded as Social Security Commissioner by Commissioner Ball, who made such a valuable contribution to the committee as our first witness when this series of hearings began last week. Mr. Mitchell has maintained his direct interest in Social Security as a consultant to the American Association of Retired Persons, the Nation's largest membership association of older Americans, and to the National Retired Teachers Association. He is also a board member of A.A.R.P. It is my understanding that he testifies as an individual expert this morning, but his connection with A.A.R.P. and N.R.T.A. will add a special dimension to his observations.

While other elements of Social Security will be covered this morning, including the very important matter of health services, I will

be most interested in testimony from our three distinguished witnesses regarding the matter of financing for the system.

How we pay for the benefits and how we assure that adequate money is available to provide benefits for those who are yet to come have been, and continue to be, of great concern to me.

No less important is the matter of equitable treatment of the citizens who participate in Social Security, first as taxpayers, and ultimately, as beneficiaries.

It seems that we must always try to achieve three objectives in our approaches to this great program.

One, adequacy of benefits to the end that participants have a floor of protection on which they can build in meeting their own economic security needs.

Two, equity among the various individuals who participate, either as contributors or beneficiaries.

And three, assurance that the system is fiscally sound for the long haul and thus capable of fulfilling its promise through future benefits for those who currently bear the cost through their taxes.

I am sensitive to the fact that there is considerable controversy in these fields, especially as they relate to financing.

The Committee on Aging and the public should have full exposure to the facts and thinking on which these controversial positions are based.

I am confident that our distinguished chairman, Senator Church, has recognized this in his plans for future hearings.

This morning, however, I look forward to the undoubtedly valuable contributions which will be made by Messrs. Brittain, Brown, and Mitchell.

Senator CHILES. Thank you, Senator Fong.

We will now have a statement by Senator Williams.

STATEMENT BY HARRISON A. WILLIAMS, U.S. SENATOR FROM NEW JERSEY

Senator WILLIAMS. Mr. Chairman, I have a brief statement.

First, I believe that the committee is performing a timely and valuable service by turning its attention to "Future Directions in Social Security."

Thanks to congressional initiatives, important improvements have been made in Social Security payment levels within the last 3 years. Certainly, the 20-percent across-the-board increase voted last July over administration opposition is one of the most significant reforms made in the 38-year history of our social insurance system, especially since it was coupled with the establishment of an automatic cost-of-living adjustment mechanism. Soon after, other important improvements were added through enactment of H.R. 1.

I believe that the Senate Committee on Aging helped set the stage for these important enactments through its investigation of the economics of aging, beginning in 1969 under my chairmanship. Thanks in part to the constant attention given by the committee to issues raised by that study.

Congress was ready to act when the opportunity arose.

Now that Congress has acted, it may be some time before another major Social Security bill will come up for consideration. That time should be used, as it is being used at these hearings, for discussion and debate on where we go from here.

I am especially pleased, therefore, that Dean J. Douglas Brown of Princeton University has been called to testify today.

At a time when we are looking for perspective on our Social Security system, we will hear from a man who was working on that system before it actually came into being. Dean Brown helped shape the thinking and the legislation that led to enactment of the basic Social Security legislation in 1935. He has been working on it ever since, primarily as a member of Social Security Advisory Councils but also as an author and an advocate.

Dean Brown, we from New Jersey are very proud that you have played such a major role in this vital area. You are still making contributions to the field, including your new book, "An American Philosophy of Social Security." One of the very important points you make is that the three basic concepts of that system apply in 1973 as they did in 1935: that an old age insurance plan in the United States should be national, compulsory, and contributory, and provide benefits as a matter of right. You also make the point that these concepts have succeeded because they have been psychologically right: People want to feel that they have earned their Social Security benefits; they want to feel that their benefits are secure and as equitable for all as is possible.

I've waited for some time to hear from you, and I am looking forward to your testimony.

Senator CHILES. Mr. Brittain, I think we are ready for your testimony.

STATEMENT BY JOHN A. BRITTAIN, THE BROOKINGS INSTITUTION*

Mr. BRITTAIN. Thank you.

I should say in the beginning that my approach to this question is rather specialized, and I hope as I read through this statement, you will feel free to interrupt me with questions at any point.

The Social Security payroll tax is now second in size only to the individual income tax, and gaining rapidly. It is also increasingly unfair to the working poor and middle income groups, and is in urgent need of reform, or phasing out. Social Security is an essential social program, but there is no natural law compelling that it be financed by this inequitable tax. It is time for Federal policymakers to appraise the payroll tax on its own merits, and to consider a finance system based on the taxpayer's ability to pay.

The payroll tax earmarked for Social Security easily qualifies as the leading growth tax since the Second World War. This year, tax collections to finance the Federal old age, survivors, disability, and health insurance (OASDHI) programs will reach about \$63.9 billion—nearly 40 times the level of 1949. This represents an annual growth rate of

*The views presented in this statement are those of the author and not necessarily those of the officers, trustees or other staff members of the Brookings Institution.

about 17 percent, enough to raise the share of this tax in the Federal revenue total from 4 percent to about 25 percent. And the end of the trend is not in sight. The maximum tax per employee has moved from \$60 in 1949 to a scheduled \$1,404 in 1974. At that time a two-earner family may be paying as much as \$2,808 a year, or \$54 a week, even if no further tax increases are enacted. By next year, the tax on any middle income earner at or above the taxable ceiling will have risen 73 percent in just 3 years.

These are striking figures, but they mask the unfairness of the tax structure. It is ironic that, although there is a declared war against poverty, the fastest-growing tax should be levied on employment income, without exemptions for families in poverty. This absence of exemptions, combined with the current \$10,800 ceiling on taxable earnings, results in effective payroll tax rates for the working poor and for middle income groups that are far higher than those for upper income groups.

One might have expected a good deal of resistance to so large and inequitable a tax. Yet, only recently has this levy begun to generate substantial criticism by the public, and within the Congress. If the payroll tax is to be effectively challenged, it is essential that the reasons for its virtually unquestioned expansion be clearly understood.

First, the case for the overall Social Security program is strong and has been skillfully presented. Its contribution to the prevention and alleviation of poverty in the United States has made Social Security an almost invulnerable political institution. However, there are also two special reasons for the long-time acquiescence of the American public in payroll tax increases.

First is the taxpayers' impression that Social Security is like a private annuity program and that their payments are vested in their own names.

Second, the rates also seem low in comparison with those of the Federal income tax. Most wage earners probably do not realize just how much they are actually paying.

I want to concentrate today on the inequities in the tax structure, individual lifetime prospects under the Social Security program, and potential reforms of the tax itself. However, no critique of the payroll tax can be evaluated without consideration of the analogy with private insurance, and the actual burden of the tax.

IS SOCIAL SECURITY A INSURANCE PROGRAM?

A key defense of the payroll tax is that it is simply not a tax in the usual sense. Rather, it is a "contribution" to a "trust fund," analogous to private contributions under a private insurance or annuity program. Under the "insurance principle," all people should pay the same for what they get, just as millionaires and indigents pay the same price for a loaf of bread. Social Security experts have fostered this analogy between Social Security and private insurance since the inception of the program in 1937. During the 1950's, for example, the Social Security Administration told covered earners: "Your card is the symbol of your insurance policy under the Federal Social Security law."

More recently, Wilbur Cohen, as Under Secretary of Health, Education, and Welfare, referred to the "right to these insurance benefits" as a "legal right enforceable in the courts."

The insurance analogy furnishes a preemptive argument against taxpayer and legislative resistance to increases in the payroll tax and to criticism of its inequities. It has discouraged evaluation of the tax independently of prospective benefits on the ground that all that matters is how an individual is likely to fare over his lifetime. The fact that many earners who are exempt from income tax by the ability-to-pay criterion are still forced to pay the payroll tax, is deemed irrelevant under the insurance analogy.

It should be acknowledged immediately that the insurance principle is still alive and well, as I am sure you will hear in this hearing, and there is no logical justification for independent appraisal of the tax unless the insurance analogy is challenged. How can this defense of the payroll tax be penetrated?

PRIVATE INSURANCE ANALOGY MISLEADING

In the first place, the analogy with a private insurance policy is seriously misleading for many reasons:

One, the risks or expected costs are not actuarially evaluated in the usual sense, because the expected loss for any individual or group is not related to age, health, and other characteristics, and because demographic projections are not the sole basis for forecasting the costs of the program, even in the aggregate. Costs also depend on future benefit legislation, which cannot be accurately or scientifically forecast.

Two, benefits are not predetermined, since they are not vested in individuals and are changed repeatedly by law.

Three, the trust fund at a given moment could finance only about 1 year's benefits.

Four, individual benefits are only loosely related to taxes paid. For example, older self-employed persons and other groups first covered after the Second World War have received benefits far larger than could be justified by their brief taxpaying experience. On the other hand, workers who will have paid into the system for nearly 50 years are guaranteed no specific level of benefits.

Five, the Supreme Court has stressed that the taxpayer does not have a contractual interest in benefits and that "non-contractual interest of an employee covered by the act cannot be soundly analogized to that of the holder of an annuity, whose right to benefits is based on his contractual premium payments."

Six, the tax may be called a "contribution," but unlike a private program, participation and contributions are compulsory.

I list those six points not to criticize them but to indicate that Social Security differs in major ways from the private insurance programs.

In practice, then, Social Security is much less an insurance program than it is a transfer program in which the earning population supports the retired, survivors and disabled. From this viewpoint, why shouldn't the earning population be taxed according to its ability to pay? The insurance analogy has been a key factor in the headlong growth of payroll taxation and the persistence of its inequities. It has served to defend the taxation of families in poverty on the ground that they are paying for their old age. The practical result is that the tax on a poor family may help keep it in poverty for years before benefits begin. It is time to recognize that the insurance analogy is expendable. A general understanding that individual taxes and benefits are not and need not be tied together, either legally or in practice, would open the door to consideration of more equitable ways of financing the Social Security program.

HOW HEAVY IS THE TAX AND WHO PAYS IT?

The payroll tax is also shielded from criticism by a lack of perception of its actual burden on individuals. It chips away all year, but there is no settling up time in April to draw annual attention to the burden. The tax fails to exempt the lowest income bracket or to take into account the family responsibilities of the earner, but with no payroll tax return to file, taxpayers are unlikely to dwell on these omissions. Yet, in the absence of exemptions, the total OASDHI and unemployment insurance tax paid in the name of the working poor is scheduled to approach an effective rate of about 14 percent this year. In sharp contrast, even though the income tax rate for the lowest bracket is also 14 percent, the exemptions and standard deduction leads to an effective income tax rate of zero for most families in poverty. If a family of six earning a poverty range income of \$5,500, and exempt from income tax, believed that it would have about \$770 more in take-home pay if there were no payroll taxes, its tolerance of these taxes might be strained.

The cited payroll tax rate of 14 percent refers to the combined employer-employee tax, and this raises the fundamental question concerning the ultimate burden of the payroll tax: Who bears the employer portion? Many defenders of the payroll tax assume that the employer contribution is like pennies from heaven, simply paid as required, and without adverse effect on the basic wage. Taxpayers themselves may also believe that the employee tax reduces their take-home pay, but that the employer tax does not, since it is not deducted from their stated wage. However, this assumption may be criticized on two grounds:

First, it conflicts with a generally accepted principle of public finance that the effects of a tax based on the use of labor are the same, subject to minor qualifications, whether it is imposed on the employer or the employee side of the market.

Second, most economists taking a position on the question have believed for years that labor actually bears both parts of the tax.

For example, Milton Friedman has written:

[The total tax for Social Security] includes what is euphemistically called a "contribution by the employer" . . . This is mislabeling. It is no contribution by the employer; it is a compulsory tax and it isn't paid by the employer; it is, in effect, paid by the wage earner. It is part of his wages that is sent to Washington instead of going to him. The form, the name, doesn't change the substance.

It is difficult to conceive of any difference between the employer and employee taxes other than their labels. The employer views his share of the tax as no less a part of his total labor costs than the portion of wages and salaries he withholds for the employee tax.

For labor of a given productivity, the employer will be willing to incur a certain total cost and the higher the employer tax, the lower the basic wage he will pay.

From the viewpoint of the employee also, there should be no distinction between those parts of his total compensation that are withheld as employer and employee tax. Each tax is withheld from his total compensation, just as is his income tax.

EMPLOYEE PAYS BOTH PARTS?

From that perspective, the employee is paying both parts of the payroll tax. This proposition is supported strongly in my own extensive statistical work relying on an intercountry analysis. It shows a straight trade-off in real terms between the payroll tax and the basic wage. It should be added that it makes no difference whether the depression of the real wage by the tax is accomplished by a price increase or a lag in money wages.

The employers may simply raise prices to recoup the tax, as most admit they do, but if the tax is general and all employers raise prices sufficiently to do this, they shift most of the tax burden to labor by increasing the price of commodities on which earners spend their given money wage. Moreover, if employers raise their prices enough, they can also offset the increases prices of their own consumer good purchases and maintain their original real profit level, thereby completely shifting the tax.

In practice, the tax is probably shifted by a combination of, one, price increases, and, two, conceding lower money wage increases than justified by labor productivity, but the result is essentially the same.

It may be objected that theories don't always work out in the real world.

On a more commonsense, empirical level, it is useful to think of two trading countries which are identical except that one has nearly a 50-percent employer tax, as in Italy, and the other has only a 5-percent tax.

The first can be expected to pay a far lower basic wage than the second. My statistical study showed this to be the case. In fact, it shows that given the level of productivity, the higher the employer payroll tax in a country, the lower the basic real wage by about the same amount. This indicates that the tax is coming out of labor's share. It does not, of course, imply that labor gets nothing in return. Obviously wage earners receive associated benefits from the government, or workers who forego a substantial part of their direct wage due to the tax would not tolerate it.

In Europe, where the payroll tax rate is generally much higher than here, there are few illusions over the ultimate burden of the employer portion.

The conception of a trade-off between the employer tax and the basic wage is often made explicit in collective bargaining sessions.

One French union official clearly implied that the employer contribution, earmarked in large part for child allowances, is actually a substitute for wages.

"We are getting paid less and less for our work, and more and more for being 'Father Rabbit,'" he complained.

When employees in this country become aware of this trade-off, they will conclude that they are actually paying twice as much as indicated by their withholding statements.

Those two points concerning the insurance analogy and incidence are the most controversial of this question of Social Security financing, and I wanted to elaborate on these two points, even though that was not the basic objective of this statement.

IS THE PAYROLL TAX UNFAIR?

In light of the foregoing points, the rest of my discussion will assume that, one, the insurance principle does not justify the status quo in Social Security financing, and, two, the entire combined employer-employee payroll tax is borne by employees.

In the context of a war against poverty, it is an anomaly that an 11.7-percent OASDHI tax will be collected on the \$5,500 income of a family of six in 1973, even though this family is recognized as incapable of paying income tax. Whatever the ultimate payoff at age 65, the compulsory saving imposed by the tax is a heavy burden on the working poor. The \$5,500 earner may ultimately receive a good yield on his contribution, but who would call him profligate if he preferred to have the 11.7 percent right now to pay current expenses?

The chief indictment against the payroll tax is that it places this burden on the working poor, despite the ability-to-pay criterion that exempts them from the income tax. The highest total payroll tax rate on wages and salaries is approaching 14 percent, and it is paid by those earning less than the unemployment insurance ceiling—generally \$4,200. The unemployment tax averages 2 percent and is nominally paid by employers, but I am arguing that it, too, is borne by employees.

This initial 14-percent rate is indicated in Figure 1, where the payroll tax rate on one earner begins to decline after \$4,200; this decline accelerates, of course, after the OASDHI ceiling at \$10,800. A pronounced discrimination against the two-earner family is also revealed in this chart; except for earnings below \$4,200, the maximum tax rate on the two-earner family is higher, declining less rapidly with income than the one-earner rate, and eventually doubling it at the \$21,600 level. On the other hand, the income tax rates on all family sizes are strongly progressive throughout.

The most striking statistic of all, for some observers, is that at least half of the population, the low and middle income groups, are now paying more payroll tax than income tax. For example, as may be seen from Figure 1, an above the median family of four with earnings about \$12,000 in 1973 will pay more payroll tax than income tax.

The \$12,000 level is a crossover point, where the income tax for a family of four exceeds the payroll tax for one earner. At the other end of the spectrum, citizens may pay effective income tax rates as high as 50 to 60 percent, but their effective payroll tax rate is negligible since there is no tax above the \$10,800 ceiling.

Thus, an individual earning \$108,000 will pay a tax rate of just over 1 percent. Although the income tax contains many special preferences, the general progressiveness of its rate structure is in sharp contrast to the regressive structure of the payroll tax.

The ability to pay criterion has always been accepted as fundamental to the design and evaluation of the income tax. When the new administration took office in 1969, one of its early acts was to provide low-income relief from the income tax. This was to alleviate the anachronistic situation in which families officially classified as living in poverty were paying this tax. Scarcely a voice was raised, however, concerning the payroll tax paid by these same families, even though it was a much greater burden for them than the in-

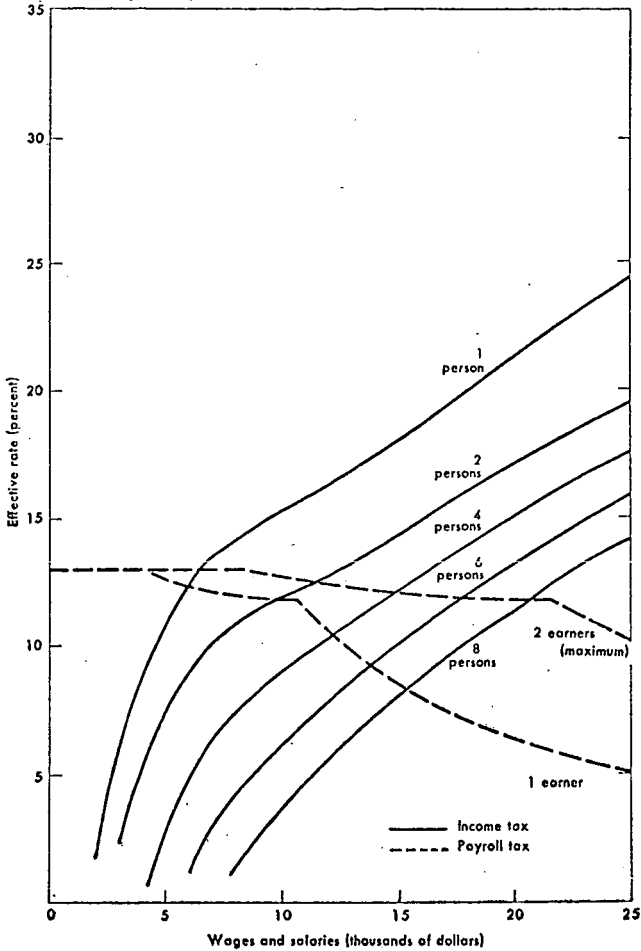


FIGURE 1. Payroll and Income Tax Rates on Wages and Salaries, Various Family Sizes, 1973¹

come tax. Under the insurance principle, the working poor continued to be taxed at the highest rate of all. If the ability-to-pay guideline is valid for our largest and fairest tax, why should it not also be applied to the Social Security tax?

One more feature of the general unfairness of the payroll tax should be emphasized. It is so regressive after the \$10,800 ceiling is passed that it more than cancels out the progressivity of the income tax. The combined rate for these two dominant direct taxes on individuals is regressive over a substantial range, with the result that a two-person family earning \$10,800 in 1973 may pay a higher combined tax rate than one earning nearly \$23,000. Thus, middle income

¹ The payroll tax rates are based on a OASDHI rate of 11.0 percent, before the final revision to 11.7 percent, approved in October, 1972.

persons with earnings in the vicinity of the Social Security ceiling are discriminated against compared to others earning more than twice as much. Moreover, these contradictions are increasing, since the payroll tax is growing faster than other taxes. On grounds of equity, the case for turning from payroll tax to income tax is very strong.

WHAT RATE OF RETURN UNDER SOCIAL SECURITY?

My own work has concentrated almost exclusively on the tax side of the Social Security picture, and it is appropriate to consider independently the taxation of today's working population. However, on a lifetime basis each person both pays and expects to receive, and the net result should also be considered.

The enormous rise in Federal Social Security tax receipts since 1949 has stirred a debate over how well workers fare on a lifetime basis under the system. Young workers with a long period of tax paying ahead of them, and an even longer wait for benefits, have begun asking whether they are getting their money's worth under Social Security. The expressed opinions are remarkably varied.

For example, Paul Samuelson pictures Social Security in a growing nation as, "the greatest Ponzi game ever contrived"; growth itself makes possible ever-expanding Social Security benefits:

The beauty about social insurance is that it is actuarially unsound. Everyone who reaches retirement age is given benefit privileges that far exceed anything he has paid in. And exceed his payments by more than ten times as much (or five times, counting in employer payments).

On the other hand, Milton Friedman speaks of a "raw deal" for young workers:

Retired persons currently enjoy a bonanza. But youngsters currently entering the system are getting a raw deal . . . To finance the excess payments to the growing number of retired, taxes have had to be raised repeatedly. As a result the benefits promised younger workers are much smaller than the equivalent of the taxes paid on their wages.

In view of these disparate opinions, I have reviewed the arguments and offered an independent evaluation of the evidence. My stress was on the real rate of interest or return on lifetime contributions under the system. Projections by means of an abstract model suggest that under a variety of assumptions the prospective return to most new participants under Social Security is far less attractive than indicated by Samuelson, but better than the "raw deal" suggested by Friedman. In particular, it appears that most participants will fare much better than investors in fixed dollar claims have in recent decades, as in savings accounts, but much less well than long-run investors in equity capital.

Work in the mid-sixties by Colin D. and Rosemary Campbell appeared to support the Friedman view and suggested that workers would fare better if they could save privately.

Responses by the Social Security Administration attempted to refute the critics.

My own analysis was more general. It relied on official demographic projections and assumed for simplicity equal rates of growth of earnings and benefits, as well as pay-as-you-go financing.

There were two main findings.

First, the average real rate of return on Social Security may be approximated by summing the annual growth rates of real earnings and the work force. This points to an average real yield on the order of 4 percent, on the basis of the experience of recent decades. This is substantially higher than the average real yield of savings accounts since the twenties, as nominal yields have been seriously eroded by inflation. On the other hand, the real yield from dividends and capital gains on equities over the long run has generally exceeded 10 percent, as estimated from stock price indexes and dividend data. This suggests that the average individual does reasonably well over a lifetime under Social Security—somewhere between the Friedman and Samuelson extremes.

LIFETIME INCOME REDISTRIBUTION

The second main finding concerns the lifetime income redistribution under Social Security. Those who start to work late pay less taxes and fare better than younger entrants into the labor force. Couples with a single earner have higher yields than single persons, because, given the same earnings experience, the couple receives 50 percent more in benefits. There is also substantial lifetime "vertical redistribution" of income, that is the given income strata, because the benefits structure favors low income earners. Thus an individual earning about one-third of the taxable ceiling is likely to have a lifetime yield on his contributions about half again that of a person at or above the ceiling. The lowest real yield found was about 2 percent for high income single persons who start work at age 18. Other categories could only receive yields as high as 7 percent; some late arrivals under the system such as physicians have, of course, received windfall gains and much higher rates of return on their brief tax-paying experience.

These estimates were based on earlier work with actual benefit earnings relationships of 1966 and a relationship officially proposed at that time embodying somewhat greater redistribution. Are the estimates still valid under the tax-benefit structure of today? The current "earnings replacement" ratios imply about the same lifetime rate of return on contributions as those for corresponding income ranks in the 1966 proposal. The present ratios are about one-third higher, but they are paid for by the one-third rise in the OASDHI tax rate between 1966 and 1972. The earlier conclusions on lifetime rates of return and income distribution therefore remain generally valid under the current structure. It is a moderately progressive system on a lifetime basis.

GRADUAL EROSION OF BENEFITS

Although the estimated benefit-tax structure and lifetime yield prospects have been fairly stable in recent years, recent experience suggests the possibility of a gradual erosion of yields. My estimates have assumed that all taxes will be disbursed in benefits annually. However, over the 1965-71 period OASDHI tax collections exceeded benefits by \$13 billion, and the Government was free to spend these surpluses in other ways.

In last year's legislation, the combined tax rate was scheduled to go to 14.6 percent in 2011. The scheduled tax increases are based on a

conservative estimate of productivity growth. Insofar as the latter turns out to be higher than assumed, surpluses will tend to build up in the system. This raises the possibility of a fiscal drag on the economy as well as the legitimacy of generating with the Social Security tax surpluses that can be used for other purposes. In the present context, it also would produce a downward trend in benefit-tax ratios and in the lifetime rate of return on contributions.

The many improvements in the benefit structure in recent years have raised the rate of return for some categories of participants. For example, the two largest recent changes were the increase in widows' and widowers' benefits, and the liberalization of the retirement test. These are major steps forward, and they justifiably improve the return to some individuals under the program. However, since they are covered by payroll tax increases, their effects on the overall yield of the program to participants and its redistributive impact are minimal. The rate of return continues to depend primarily on earnings and work force growth rates, and the relatively stable benefit-tax relationship.

The substantial degree of income redistribution achieved under Social Security offers explicit refutation of the "insurance principle" and the common view that Social Security is not intended to be a redistributive mechanism. It always has been, whatever the intention. However, it may be suggested that the fairly substantial lifetime yield and progressivity undermines any critique of the tax per se. In response to that it must be reiterated that the tax should be appraised independently of benefits. Today's tax is pushing some people deeper into poverty right now, regardless of prospective benefits decades in the future.

Although there is a modest degree of progression in the yield-earnings relationship, the yields at the low end of the income scale are highly unattractive to the poor. Low income families frequently must borrow at very high interest rates. It is therefore difficult to justify forcing them to save, even at a real interest rate of 7 percent under Social Security. They may at the same time and in part as a consequence, be borrowing at 36 percent or more.

In the context of a war against poverty, it remains an anomaly that a payroll tax is being imposed on families who are recognized as incapable of paying any income tax. The payroll tax is especially burdensome to these working poor, who get little offsetting help from welfare. They are unlikely to regard an 11.7 percent compulsory annual savings as trivial. Clearly, some major changes in this tax are called for.

HOW CAN SOCIAL SECURITY BE FINANCED MORE EQUITABLY?

Two broad classes of revision should be considered: A modest internal reform of the payroll tax structure and its complete phasing out in favor of other taxes, particularly the individual income tax.

The first proposal calls for internal restructuring of the payroll tax by means of exemptions and deductions from pooled earnings identical to those under the income tax. If these exemptions and deductions were phased out rapidly for incomes above the exemption levels, the cost could be met by an increase in the income tax yield of as little as 4 percent. This would be an efficient and inexpensive first step that

in general would eliminate the tax on families in poverty, the least defensible feature of the payroll tax. Since the earnings of husband and wife would be pooled in computing the tax, this plan would also end the discrimination against the two-earner family.

Extending the low income relief farther up the scale toward middle incomes would lose somewhat more revenue, but should also be considered as a simple illustration and desirable reform. A convenient approach is to start with the same value of exemptions and deductions as under the income tax but reduce this value by the amount by which it is exceeded by earnings. In other words, you gradually take away the exemption for individuals with higher earnings. For example, a family of four is entitled to total exemptions and standard deductions of \$4,300 and would be exempt from tax on earnings up to this level.

A family at \$6,000 would have this exempt amount reduced by the excess of \$1,700; only \$2,600 of its earnings would then be exempt and its taxable earnings would be \$3,400. For earnings of \$8,600 or more, the entire exemption would disappear and earnings would be fully taxable. If applied to both the employer and employee tax base, I estimate that this reform could be financed by a rise in the income tax yield on the order of 10 percent.

This type of revision could be supplemented by reform at the higher end of the earnings distribution. An increase or removal of the ceiling, coupled with a rate reduction, would reduce regressivity without expanding the tax yield. However, as the tax would remain regressive with respect to total income, a move toward the income tax would be more equitable. In any case, frequent increases in the ceiling tend to entrench an undesirable tax. Under the 1972 legislation, the ceiling is now scheduled to escalate with average earnings, but it would be better to hold the ceiling fixed so that gradual increases in exemptions would overtake the ceiling and the payroll tax would wither away. In practical terms, this is probably the best way to abolish this large and unfair tax structure.

A second major type of proposal involves more substantial reforms, including full replacement of the payroll tax by the income tax. It would be difficult to put this through the legislative process in a once-and-for-all proportional adjustment of the income tax structure, since it would require an increase in income tax yield on the order of 50 percent. However, full replacement might be feasible if it were approached step by step, through a restructuring of the effective income tax rate to take over the full burden of the payroll tax in an equitable way.

This could accomplish several desirable objectives:

One, the combined payroll and income tax on very low incomes could be largely eliminated.

Two, the regressivity in the present combined rates could be eliminated in favor of a smooth, progressive rate.

Three, regressivity at the top of the distribution could be ended.

Four, incomes near the median and below could receive net tax relief at the expense of other income ranges currently favored by inequitable depressions in the combined rate curve.

Achievement of these substantial gains in equity through coupling elimination of the payroll tax with income tax rate adjustments appears quite feasible.

An alternative means of substituting the income tax for the payroll tax is to integrate the two: the income tax could absorb the employee's share of the payroll tax directly, or the employee's payroll tax payments could be credited against his individual income tax. The burden of the employee tax would be fully removed if cash refunds were paid to those whose employee payroll tax exceeded the income tax. Any psychological advantage of the earmarked tax could be retained with either of these devices, while in effect the income tax was substituted for the employee tax. Integration of course need not be restricted to the employee tax. The taxpayer could also receive credit for the employer tax paid in his name. This would be consistent with the finding that the employee also pays that tax as a result of the restraint it imposes on real wage rates.

An alternative to substituting the income tax for the payroll tax is to finance Social Security benefits from general revenue, a method already used on a small scale to cover part of the costs of Medicare and for Social Security benefits for persons aged 72 and older. Financing benefits from the general fund would be an improvement in that the taxes supplying the fund are, on balance, progressive. It would, of course, entail increases in income tax rates, and the impact would be less progressive than substitution of the income tax alone.

WHAT IS THE PUBLIC'S STAKE IN PAYROLL TAX REFORM?

It may seem utopian to contemplate drastic alteration or phasing out of so massive and entrenched a fiscal device as the payroll tax. However, a majority of citizens might welcome a change if the issues were more widely known. Most taxpayers complain about the income tax, but their displeasure with the payroll tax is blunted by the general belief that the tax and benefit package is fair overall. As taxpayers with middle and lower incomes become more aware of the inequities and the burden, they may prefer an expanded income tax.

While the burden on low and middle incomes has been growing, public tolerance of increasing outlays for antipoverty programs has ebbed. One reason these programs receive inadequate support is that they help only a minority. A reform of the payroll tax or its replacement by the income tax might be a more feasible means of helping low-income groups, since either approach would benefit the majority of the population while ending some substantial inequities.

As it gradually becomes understood, the heavy burden of the payroll tax on low and middle income groups is clearly capable of generating substantial support for eliminating the tax. But the swing group may be the middle income class. When median earners begin to realize they are paying total direct taxes at a rate higher than that paid by earners with twice their income, they, too, may demand reform of the payroll tax.

Senator CHILES. Thank you, Mr. Brittain.

Senator Fong, do you have any questions?

Senator FONG. Yes.

Senator CHILES. I might just mention we have two other witnesses. We should try to confine our questions so we can finish soon.

Senator FONG. Mr. Brittain, you do not propose the total elimination of the payroll tax, do you?

Mr. BRITAIN. I think the first approach would be eliminating the heavy burden on very low income people.

I would like to see a gradual phasing out of the payroll tax in favor of a more equitable tax, but that is a long-run proposition.

Senator FONG. In the final analysis, you would wish to see that there would be no payroll tax?

Mr. BRITAIN. That is right. Even if there is relief given to low income groups, for example, the tax applies to earnings only, and it is applied at a flat rate. It would remain regressive, even if the ceiling were completely removed, because property income makes up a higher fraction of the total income of people at a higher income level. So they would still pay a lower payroll tax rate on total income than people at a lower income level.

Senator FONG. If the total payroll tax was eliminated, both from employee and employer, to pay for the present benefits which the law provides, how much more income would we have to generate?

Mr. BRITAIN. How much more?

Senator FONG. Income tax.

Mr. BRITAIN. At the present time, it would be on the order of 50 percent.

Senator FONG. In other words, we increase the income tax on everybody by 50 percent?

Mr. BRITAIN. That is right, in the aggregate, the payroll tax at the present time is yielding somewhere over half what the income tax is yielding, so there would have to be a total increase in income tax on the order of 50 percent.

However, the ratio would not have to be raised by a fixed percentage across the board.

I would suggest there are certain ways of raising the yield so that the whole structure could be made more equitable.

I was not able to get into the details of that in my statement.

Senator FONG. Do you believe that if the public had a choice between increasing the income tax 50 percent, or given the benefits which are given through the present law, that these benefits will decrease?

Mr. BRITAIN. You mean in practice, people would not tolerate a large increase in income tax.

Well, I would defer to Members of the Senate to measure the electoral attitude better than I, but I have suggested in more detail, in my book, that the income tax could be restructured in such a way, with the payroll tax being abolished, that a substantial majority of the population would pay lower total taxes than they had before.

PAYROLL TAX REFORM

Whether the American public will recognize this possibility, will realize they are also paying the employer tax at the present time, and realize how big a tax they are paying, is another question. It is a very complex proposition, but I think if the income tax were restructured in a certain way, so that it would pick up all of the payroll taxes, reducing the total net burden on most of the earning population, that would be a reform that would be popular before the public.

Senator FONG. How would you be reducing the burden on the population, if you were going to raise the same amount?

Mr. BRITTAIN. I did not mean a reduction for everyone.

There would be some people who would have to pay more. Right now the lower income people are paying a very high payroll tax rate, and I feel that is inequitable, so some people would have to pay a higher combined income and payroll tax rate.

Senator FONG. Where would you say the medium line would be, who would be paying more, who would be paying less?

Mr. BRITTAIN. I have some very rough estimates in my book, but am I right that you are talking now about the break-even point?

Senator FONG. Yes, who will be paying more, and who will be paying less?

Mr. BRITTAIN. I may have to revise this after looking at my estimates for an earlier year, but I believe it would be on the order of \$12,000 today.

I would like to check that.

Senator FONG. So if you used income tax in place of the wage tax, those earning \$12,000 or more would be paying more?

Mr. BRITTAIN. I am trying to think what the original numbers were. I think the break-even point would be somewhat higher than \$12,000 now, but I cannot say on the basis of the higher incomes at the present time where the break-even point would be. I can produce for the record a set of estimates based on my book which would spell this out, but I am afraid I cannot at the present time.

Senator FONG. Could you do that for the record, give us an estimate as to where is the break-even point, who would be paying more, who would be paying less?

Mr. BRITTAIN. Yes. I will supply that for the record.

[See supplemental statement, p. 209.]

Senator FONG. We have two other witnesses, so I will not ask any further questions.

Senator GURNEY. Just amplifying on the question that Senator Fong asked, I had in my notes here, what you are really suggesting is whether to do away entirely with the payroll tax, or lessen it somewhat, and increase the income tax, or have the income tax to bear all of the burden. What you are really suggesting is that lower income people are paying too much, and the higher income people are not paying enough. Is that not really the essence of the argument?

Mr. BRITTAIN. Yes.

Senator GURNEY. So my question will be perhaps an amplification of Senator Fong's question, and I know perhaps you do not have these figures at your fingertips, but will you supply for the record at what income level does one pay no tax at all under your suggestion? People earning \$3,000, pay no tax on Social Security, or income tax or \$4,000, \$5,000? When would the tax begin, and how would it be graduated in order to carry out your suggestions?

I think that is very important for the committee, because that is the essence really of your argument.

RELIEF FOR LOW-INCOME GROUPS

Mr. BRITTAIN. Yes; but could I add that what I am simply proposing as a first step is low income relief from the payroll tax, without full removal of that tax. This is a moderate reform that would not cost

very much. I have suggested one rapid phase-out plan which would help only low-income families and would require only a 4 percent rise in income tax rates. Another that would carry this relief toward middle-income levels might cost about 10 percent.

Senator GURNEY. May I suggest this, since we are talking in phases these days, why don't you have a phase I, phase II and phase III.

Mr. BRITAIN. I would be glad to present to you several phases.

[See supplemental statement, p. 209.]

Senator GURNEY. Fine. Thank you.

Senator DOMENICI. I have no questions.

Senator CHILES. I am impressed with your testimony concerning the proportion that the low income worker pays.

I wanted to ask you, from the standpoint of what we call the working poor, when we talk about programs like family assistance, or the guaranteed annual wage.

I happen to think that it is somewhat a misnomer, but I find that the working poor do not consider themselves poor, but this is a classification that we have given them, the so-called working poor.

In the family assistance plan, and in the guaranteed annual income, we are going to take care of these people, but by putting them on welfare, giving them a welfare check of some kind.

As I understand from your testimony, you think it would be much better to give these people a benefit by not charging them on first dollar of wages for the Social Security tax.

Mr. BRITAIN. Yes; I believe that would be better.

Senator CHILES. In the last Congress, I introduced a bill which in part would provide that people, until they paid an income tax, they would not pay any Social Security tax, or in effect, they would pay it, but then they would be entitled to a refund, up to the point they would pay the income tax.

I assume that would be part of your plan?

Mr. BRITAIN. Yes; that sounds fairly close to the moderate proposal I was referring to, except that you have what is called a "notch" problem. What about the person right at the borderline? You would not suddenly at that point slap the entire payroll tax on him. Instead, you would probably want to withdraw the refund gradually above that point. That is basically what would be done by my modest reform.

Senator CHILES. I would like to have your opinion, on the Senate Finance Committee, when it was working on H.R. 1 last year, it included a work bonus. Under these provisions, heads of families would have received a bonus, equal to 10 percent of their earnings, on the first \$4,000 of annual income, and diminishing amounts of income above \$4,000.

Under these provisions a family with \$2,000, would have received a work bonus of \$200, while a family of \$4,000 in earnings would get a work bonus of \$400.

For incomes above the \$4,000 level, the work bonus would gradually decrease and disappear at \$5,600.

This work bonus was in effect a rebate of Social Security taxes from general revenue funds for low income workers. It is the advantage of allowing the employee to continue to work from the Social Security system, and receive credits under the system.

Would you give me your opinion on that provision?

Mr. BRITAIN. I think that would be another good first step, to give rebates under the income tax, as I suggested in my statement. I feel that would be a good beginning.

I am not sure what the total cost of those rebates was to be.

Are you aware of the estimates?

Senator CHILES. I do not have them. The committee did have those estimates. I do not have them now.

Mr. BRITAIN. I think that rebate plan would be somewhat smaller than I was proposing, even my low-cost proposal.

Senator CHILES. You were pointing out that the lower income worker is paying a disproportionate share, and he is not receiving some of the benefits back.

We were talking of perhaps a division between payroll taxes and income taxes. I would like to have your opinion on some of the items that should be carried under the general revenue or income tax as opposed to those that would be carried on the payroll tax.

What about the minimum benefit?

Mr. BRITAIN. Well, as I suggested, in the long run, I would like to see all of the payroll taxes removed in favor of the income taxes.

I do not see why you would want to establish a list of priorities of the type of benefits that would be financed by the payroll tax.

Senator CHILES. If you were talking about the combination of payroll tax and using general revenue as a basis, would it not be fair if you said the payroll tax was going for those items, that most workers were going to share in, it would be on an annuity basis, it would be on the basis you were setting something aside today, that you would pay back later, that is supposedly the rationale for the payroll tax.

ESSENTIALLY "PAY-AS-YOU-GO"

Mr. BRITAIN. Yes, the rationale at the present time is that this whole tax is being "set aside." Well, it is not, because most of it goes for current benefits. This is essentially a pay-as-you-go program, even though it is called an insurance program, and the tax is called a contribution.

There is still an earmarking of these funds for payment of benefits at the present time.

Now, what I gather you are suggesting, if you cut into the payroll tax, what kinds of things would be appropriate for financing out of general revenues? Well, I never actually have been concerned with earmarking as such.

I mean, if the insurance principle has become as eroded as it has already, it is really a question of deciding how you raise money in the aggregate to pay the total amount of benefits deemed necessary.

Senator FONG. What I am saying, I do not think the Congress is going to knock out the payroll tax and substitute the income tax for it, but we see that there is a great deal of unfair provisions with the payroll tax.

What are some of those most unfair provisions, and how could the Congress work toward making a substitution in some of the areas of using general revenue tax dollars?

Mr. BRITAIN. Well, I suggested that the first proposal is to remove the tax entirely on people who are officially defined as living in pov-

erty, and then allow some additional tax relief up to a certain point to people somewhat above the poverty line.

I have made a point about another inequity, which is due to the taxable ceiling. The result of the ceiling is that people right at that level are paying a very high tax rate, and they pay a higher tax rate, a combined payroll and income tax rate, than people with much higher incomes.

Senator CHILES. Well, you have made a strong point that we are putting a burden on the working man today, the fellow that is working with the sweat of his brow, the man making under \$12,000 carries most of the burden of our Social Security.

The point I was trying to elicit from you, is a minimum tax being one of those features.

We started off with a minimum benefit, which I understand was because of Government accounting, it was easier to pay \$5 to everybody, when at that time we did not have computers, than to try to determine what the minimum was.

Future Congresses have seen fit to raise the minimum, that we now find the minimum requires a tremendous sum of funds benefit, it is socially desirable, but at the same time, it has no relation to what the wage earner is paying, other than it is something socially that we have decided to do, so could not this be an item covered under general revenue, because it does not relate itself to what a man working today is saving for the future, because he is putting his aside today.

Mr. BRITAIN. Yes, I think it is easy to argue for general revenue funding of certain aspects of the program, such as windfall benefits to people who got into the program late in their lifetime, and to finance some part of the minimum, as you suggest.

Senator FONG. What perturbs me, Mr. Britain, we sold the program on the basis this is an insurance, and now we say we defrauded you, we fooled you, and this actually is not insurance.

You see the morality in that?

Mr. BRITAIN. I do not think anyone has defrauded the public by saying it is insurance.

It does have some aspects of an insurance program, and some aspects of an annuity program.

Senator FONG. But if we carry your opinion to its ultimate conclusion, then you would have to say that if we refer to the income tax for the paying of benefits, we will have to arrive at the decision that everybody will get the same kind of benefits, nobody will get more than the other one.

BENEFIT STRUCTURE RELATED TO PAST EARNINGS

Mr. BRITAIN. I do not think that is true. We could have a benefit structure related to past earnings.

Senator FONG. You are going to say, we will take this money out of general income, and then we will give the rich man more than the poor man at age 65. Could you say that?

Mr. BRITAIN. I do not see why wage-relatedness in the benefit structure has to be abolished, merely because the payroll tax is phased out.

We have a progressive income tax structure which charges the person with higher ability to pay a higher tax, which could justify a higher benefit.

Senator FONG. Here you are saying at the age of 65 a man who pays a higher income tax will get a bigger sum of money from the Federal Government.

Now, that does not look right, does it?

Mr. BRITTAIN. I do not think that it will be of great concern to the public if wage-relatedness is retained in the benefit structure.

The real problem here is not so much the lifetime relationship as the actual tax levied on low-income people at the present time. I do not see, Senator, why there could not be at least a modest amount of wage-relatedness in the ultimate payoff.

If we are going to pay benefit recipients according to some relationship with their lifetime earnings, I do not believe that should be regarded as outrageous in any sense.

We have a progressive income tax to help the situation, and it is perfectly acceptable to have some degree of wage-relatedness in the structure even without the payroll tax.

Senator FONG. Do you not think it would be easier for the Congress in such circumstances, to say: "Let us cut everybody's benefits," since they are not related to the amount that he pays?

Mr. BRITTAIN. Well, I suggest continuing having it related to some degree as at the present, but not to finance the benefits by a regressive tax.

It is perfectly acceptable to treat financing and payment of benefits separately.

There is no need to have these closely related. They are not very closely related at the present time.

ELIMINATE REGRESSIVE TAXES

Senator FONG. One final question. You talk about progressive and regressive tax.

Would you eliminate a sales tax?

Mr. BRITTAIN. Yes, the sales tax is a regressive tax.

Senator FONG. We have a lot of regressive taxes like gasoline taxes.

Mr. BRITTAIN. I favor substituting for those taxes wherever possible, because they are unfair taxes. They are not based on ability to pay. You may feel it is difficult to raise the money by taxes which are fairer, and it is necessary for people in very low incomes to pay taxes, but I think we should make every effort to keep the tax burden on very low incomes at a minimum. I would conclude that we should rely as little as possible on regressive taxes such as sales taxes.

Senator FONG. Would you agree with the two previous witnesses that appeared before us, that the benefits paid in the lower income brackets are much greater than those paid to the higher income people?

Mr. BRITTAIN. In proportion to their lifetime earning experience, yes.

I would say that the lifetime experience that people can expect under the program is progressive, in that a low-income earner can

expect to get a higher yield on his lifetime contribution than a high-income earner would, but that still does not justify a heavy tax on people in poverty today.

You cannot get away from the fact that people are paying today for something they will receive far in the future, and if they are already in poverty, the tax is not justified today, even though it would be fair on a lifetime basis. In the case of people already in poverty today, there is something wrong with subjecting them to that tax.

FINANCING THE MINIMUM BENEFIT

Senator CHILES. A good example of that again is the minimum benefit, because we have people receiving the minimum benefit, irregardless of what their financial station is, as to what their ability to earn is, or their ability to accumulate funds have been, and also irregardless of what they have paid into the system, completely irregardless of that, and everytime we raise that minimum benefit, we provide that money, not only to those who need it, but also to many who do not have any need, and we charge the poorest man in our work system today for that benefit, he is the one that has to pay it.

Mr. BRITAIN. Yes, Senator; I should have made my position clear earlier on that.

I certainly do believe that if the payroll tax is to be retained for part of the financing, it would be very appropriate to earmark the income tax for that particular kind of benefit for which there is very little relationship to past earning experience or taxes paid. That is true.

Senator GURNEY. At what level would you suggest there be no payroll tax at all?

Mr. BRITAIN. At what level?

Senator GURNEY. What level of income?

Mr. BRITAIN. As I said, I would like to see it gradually phased out altogether.

Senator GURNEY. That is why I asked the question.

Mr. BRITAIN. There would not be any payroll tax on any income.

Senator GURNEY. Why is that?

Mr. BRITAIN. It is true that the moderate proposal I suggested would exempt from payroll tax only the low slice of earnings, but I would like to see eventually no payroll tax at all.

Senator GURNEY. Let me rephrase the question.

At what level would you suggest there be no payroll tax or income tax, or no income tax of any kind?

Mr. BRITAIN. I do not see how we could ever reach a situation where we do not have to have any income tax or payroll tax.

Senator GURNEY. I am talking about a level of earnings.

As I understand your thesis, the lower income should pay less, or perhaps nothing at all, and I am not disagreeing.

I am just asking you what is that level in your opinion? Is it \$3,000, \$4,000, \$10,000?

Mr. BRITAIN. I implied by the statement I gave that the first step should be to relieve all taxation from people who are officially defined as living in poverty today.

Senator GURNEY. What is that level?

Mr. BRITTAIN. For a family of six, I quoted \$5,500 under the latest official figures.

For a family of four, it is around \$4,500, something like that. They are already exempt from income tax.

Senator GURNEY. So your testimony is as we define it, you mean the U.S. Government defines a person in poverty, because of the numbers in the family and their income, then at that level and below, no tax of any kind should be paid?

Mr. BRITTAIN. Certainly no payroll and income tax should be paid.

Senator GURNEY. We are talking about these taxes that you are testifying about.

Mr. BRITTAIN. Yes, that is right.

I would say that at the very minimum, there should be no payroll tax or income tax on people in poverty today, and the modest proposal I suggested would just about do away with that.

Senator GURNEY. Do you have any suggestions above that level as to how the taxing, payroll or income, or combination of both should be levied?

What percentage should it be, 1 percent, 2 percent, 5 percent, 10 percent?

Mr. BRITTAIN. Well, I would, as I suggested, get away from the payroll tax altogether; but the income tax rate starting at 14 percent as at the present time sounds like a reasonable level to begin with, and it steps up gradually to 70 percent.

I feel the nominal rate structures under the income tax is a fairly reasonable one, but it would have to go up somewhat if it were to pick up a substantial part of the payroll tax. Adjustments would also be required to correct the inequities I referred to earlier.

Senator CHILES. Thank you, Mr. Brittain. We appreciate your testimony.

We will now hear from our next witness, Mr. J. Douglas Brown, provost and dean emeritus, Princeton University.

STATEMENT OF J. DOUGLAS BROWN, PROVOST AND DEAN OF THE FACULTY EMERITUS, PRINCETON UNIVERSITY

Mr. BROWN. I am privileged to appear before you, sir.

Senator CHILES. We are glad to have you.

I see your statement is short. You may proceed as you wish.

Mr. BROWN. I would like very much, if you would ask me questions, breaking in at any time.

It is said that a panel of aerodynamicists, after careful research, found that the wings of a bumblebee provided insufficient lift to support the bumblebee in flight. It is fortunate that the bumblebee, in its million years of evolution, did not know about this scientifically determined shortcoming.

The aerodynamicists made two mistakes.

One, they intensively examined the bumblebee's wings without taking the time to understand the way a whole, live bumblebee functions.

Two, they failed to realize that living things, through long response and adjustment to conditions, develop the capacity to do what is necessary for effective survival.

As with bumblebees, so with many social institutions, if they are dissected into their separate parts, those parts appear to a specialist to be ill-designed and unworkable. But through long evolution as integrated entities, the institutions have gained a mysterious capacity to survive and function effectively.

Among such social institutions are the Government of the United States, the U.S. Constitution, the U.S. Senate, the Roman Catholic Church, Harvard University, and contributory social insurance. Of these, only the Catholic Church is older than the early beginnings of the contributory mutual benefit associations for the protection of workers out of which social insurance systems developed.

According to I. M. Rubinow, writing in 1916, the origin of the idea of workman's or social insurance may be traced back to the 12th century. Bismarck, in the 1880's, did not invent social insurance, but, rather, took over, as an instrument of the state, a long-tested voluntary institution.

In the 90 years since then, scores of countries have done likewise. Those of us who in 1934-35 helped design a social insurance system for the United States were far from original. We merely realized that the time had come to use a long-tested idea in order to make old age a time of dignity, rather than of destitution and despair.

Senator FONG. May I ask you, how many countries have had Social Security before we did?

Mr. BROWN. I cannot remember precisely, approximately 30, or something of that order. It developed in Germany, and moved through the Western countries. In 1936, on behalf of the Social Security Administration, I visited many of those countries, Czechoslovakia, Germany, Austria, Great Britain, many others.

Senator FONG. And the system was already in operation?

Mr. BROWN. Yes, in fact, in studying the earlier plans, we used the International Labor Office to help us. Barbara Armstrong's book on social insurance was written in 1932 before the Social Security Act was planned. It analyzed many plans. She was one of our staff of four. The interesting thing was the differences among the plans, but there were common features, as well.

To understand the effectiveness of contributory social insurance in meeting human risks, it is necessary to treat it as an integrated mechanism. Wage earners are willing to contribute because they will receive benefits as a matter of right when they or their families need them most. For centuries, working people have learned that one cannot get something for nothing; at least, you cannot count on it.

CONTRIBUTIONS, BENEFITS NOT SEPARABLE

Contributions and benefits in social insurance are not separable entities, artificially stuck together, but are, rather, inseparable, interlocking elements in a single concept. Without this interlock, you end up with a program of doles financed by general taxation. It was such a scheme, under the name of the Townsend Plan, which we were desperately seeking to avoid in 1934-35.

In the development of OASDI since 1935, contributions, (i.e. taxes), and benefits have always been studied as parts of a single complex. It has been so in every Advisory Council on Social Security and by

the Social Security Administration, as well as with the original planners and the Cabinet Committee on Economic Security. Many of the issues already discussed this morning were discussed many times.

This close integration of contributions and benefits in the concept of contributory social insurance, paying benefits as a matter of right, is the reason why those of us who have worked longest in the development of the OASDI program oppose altering the rate of contribution for lower income participants according to some ancillary test of need. Studies were made in the last Advisory Council, on how one could adjust contributions to various types of needs if this were desirable. You face many serious theoretical and administrative problems. You have to consider whether to count the income of the whole family or the income of a wage earner alone; also the income from a single employer or from many different employers, and so on.

Rather we have always favored a benefit pattern which clearly reflects imputed need, not only in level of cash payments, but in respect to the categories of beneficiaries, such as survivors, the disabled, the displaced aged and the sick. We believe that the concept of a needs test, even some complex and arbitrary determination of imputed need, is not appropriate in respect to the contribution schedule under contributory social insurance. Helping to pay for a benefit to be received as a matter of right is an integral part of the concept.

SOCIAL SECURITY—A MATTER OF RIGHT

Senator CHILES. Mr. Brown, as I understand your studies there, you think every worker should be required to pay into the system, regardless of whether it is their first dollar earnings?

Mr. BROWN. Yes. May I give you a little bit of history.

We discussed with Mr. Green, who was then the president of the American Federation of Labor, whether the workers of this country would go 50-50 on the proposed plan. He said, yes, on old age insurance, because we all get old, and we want it as a matter of right.

The important thing is you cannot take the two parts apart. The progressivity of the Social Security mechanism arises from the side of the benefit. That is not merely, as I said, the graduated scale. In Medicare, there is a tremendous progressive element. The \$2,000 a year worker gets exactly the same medical care as does the \$10,800 worker. That is where you can best introduce a progressive element. When you try to adjust to need at the front end, the level of contributions, you get into all kinds of problems of principle and administration. You are introducing a needs test at the contribution end when you are trying to eliminate the needs test on the benefit end—

Senator CHILES. My question is on the one hand, we recognize the different plans proposed, the President's Family Assistance Plan, and other plans, have guaranteed annual wage, and there are people who are wage earners in this country, but are not earning sufficient, and we are going to try to find some way to help them by increasing some benefit that we are going to pay to them.

Now, my concern is when we are talking about the philosophy of it, I would rather this person had his pride, feel he is working, and give him the tax credits, relieve him from paying into the Social Security system up to the point where he is paying an income tax. I would much

rather do that than to give him a check and put him on welfare, because the stigma that is attached to welfare, especially with the working people. When I was running my campaign, I do not know how many people came up to me at one time or other, the first statement would always be, I do not get a Government check, I am earning my own way.

Many of those people are the working poor.

Mr. BROWN. I agree with you, but I would go one step deeper on this business of self-respect. I am convinced after many years of study in the field of industrial relations and working with wage earners, that they want something that is definitely theirs. The proportionate payment—it is proportionate, not regressive, that is proportionate up to a certain level—is one of the traditional aspects of social insurance which I have found labor groups are practically always willing to accept.

I am always surprised that some academic economists feel they should object. But to the wage earner, the fact that a friend of theirs died and left a wife and three kids, or somebody else got disabled, or their father got a benefit as a matter of right influences the psychology of lower income people as well as of the rest of us. The association of the benefit with the payment of a contribution which makes it a matter of right, is a powerful mystique. It is an integral part of the concept of Social Security.

Senator FONG. Do you feel this feeling of the worker, that he bought it, he paid for it, that it really gives him a right, is important?

Mr. BROWN. Yes.

Senator FONG. Even though he bought something cheap?

Mr. BROWN. Yes, even if he gets more for his money. He understands that.

Senator FONG. But he still feels he has paid for it?

Mr. BROWN. That is right, and he wants you and the Congress and everyone else to respect that fact. It may not be a legal contract, but it is a basic political contract, because he has paid his share. Millions of low-income people feel, just as higher-income people, that the Congress of the United States will not go back on that benefit.

Senator FONG. He feels he has a contract with us.

A SOCIAL CONTRACT

Mr. BROWN. That is right. It is a social contract.

Senator FONG. That we cannot break it?

Mr. BROWN. Right.

Senator CHILES. I appreciate that, but my concern is if you turn around and then give him a Government check and so-called welfare, what did you do to restore his feelings?

Mr. BROWN. I agree that a relief client feels differently. There is quite a difference between a typical relief client and a lower-income worker under Social Security. A great many of our relief clients are women with small children and others not able to work. But for a man who gets a job, a low-income regular worker, the Social Security benefit will be basically different compared to a grant to a person on relief. What I keep coming back to, sir, is that any way you work it, a reduction of contribution for the low-income person is essentially introducing an individual needs test into a system designed to avoid a needs test.

It cannot just exempt \$600 or \$750 per dependent as in an income tax, because the rich get it just the same as others. You have to have an annual canvass of his total income, and to be correct, you would have to use family income to determine need. The Treasury worked with us on the problem. We put it to them, how could they determine total annual income for low-income families. They said for God's sake, don't give us that job. It would mean that after all income tax forms, regardless of earnings, have been accumulated over a year you would need to determine that a person should be rebated a certain figure. The rebate, whatever it was, might come 18 months after he needed it.

There are serious theoretical objections, I am convinced, and there are very definite administrative objections.

Senator CHILES. My only answer is those same administrative objections would have to be covered if you are going to adopt a family assistance plan, you would already have done those computations, you are doing it so you could put the guy on welfare.

Mr. BROWN. Senator, in every way, for 40 years, I have tried to distinguish public assistance from Social Security. The public feels it is different.

Senator CHILES. I think that is about what we are talking about.

Mr. BROWN. I do not believe that a needs test should be brought in by the back door. That is my conviction. I have dealt with labor people many, many times, and I very seldom ever hear an objection.

Senator GURNEY. As a matter of curiosity, as I understand, every industrialized nation in the world has some kind of Social Security system.

Mr. BROWN. Yes.

Senator GURNEY. How many finance it out of Government revenues, and how many do it in combination of both?

Mr. BROWN. I cannot remember the figures, but with the great majority there is a three-way split. May I come to that, and then you will see, I am coming to a position which I have always believed in, and which the first Advisory Council believed in.

Senator GURNEY. Just one other question, we were touching on it earlier, the self-respect question.

THE "SELF-RESPECT" QUESTION

Your opinion is clear, is that backed up by any sampling of opinion?

Mr. BROWN. On a complex matter so intimately a question of human nature, informal methods of determining opinion are better than large surveys. I would like to tell you that hundreds of people have talked to me, knowing I was in the business, registered very definitely the feeling of deep satisfaction that they could get the benefit as a matter of right related to contributions.

Senator GURNEY. I believe you. I was just asking, have there been any opinion polls?

Mr. BROWN. You gentlemen are better canvassers of public attitude perhaps than I am, except I am a specialist in the attitudes toward Social Security. I am convinced that the American people feel a sense of self-respect about contributory social insurance that they would not

with relief, and I would say, in the long run, I hope some feeling about relief still persists, because I hope most people will try to get off it. As I say, this differentiates social insurance from charity, it sustains self-respect.

Senator GURNEY. But in answer to my question, you do not know of any polls that have been taken?

Mr. BROWN. No, sir.

This does not mean that contributory social insurance should be financed solely by contributions from workers and their employers alone. The basic change which occurred in Germany in the 1880's when the German Government took over voluntary mutual benefit schemes was that the Government became a third party in contributing to a social insurance system.

There are many reasons why this principle is sound. To quote the first Advisory Council on Social Security of 1937-38, which recommended the present basic plan:

"Since the Nation as a whole will materially and socially benefit by such a program it is highly appropriate that the Federal Government should participate in the financing of the system. With the broadening of the scope of the protection afforded, governmental participation in meeting the costs of the program is all the more justified since the existing costs of relief and old-age assistance will be materially affected."

The statistics have borne that out very effectively.

The Advisory Council of 1947-48 repeated the recommendation that the Government participate in the financing of the system. It added:

"In a social insurance system, it would be inequitable to ask either employers or employees to finance the entire cost of liabilities arising primarily because the act had not been passed earlier than it was."

Since 1948, we have added valuable but costly benefits under the system, including disability and Medicare hospital benefits, charging the cost to current employers and employees—even Medicare benefits for people long retired.

We have overused the payroll tax to that extent. It is not that the payroll tax is not vital to the system. I do not know how you could ever operate without it. It would cease to be social insurance, but that does not mean that the Congress should overuse payroll taxes.

I am convinced that the time has come to implement more fully a sound principle of contributory social insurance which is widely accepted abroad, which was fully supported by the planners and the earlier Advisory Councils, and was recognized by Congress from 1944 to 1950. It is that the Government should participate in the financing of a contributory social insurance system. The principle holds for the total system, but it is most urgent at this time that it be more fully implemented in respect to a merged and integrated Medicare program.

The Advisory Council of 1969-71 recommended as follows:

"For financing purposes, supplementary medical insurance, (now financed through premiums and general revenues) should be combined with hospital insurance, and the Medicare program, as enlarged under the Council's recommendations, should be financed by one-third contributions from employees, one-third from employers, and one-third from general revenues."

SUPPORT BY GENERAL TAXPAYER

This recommendation was the result of extensive study and discussion. Not only is there a limit to the proper use of payroll taxes, but especially under Medicare, there is a large degree of social redistribution of costs which should be supported by the general taxpayer.

Under Medicare, the low-wage beneficiary receives the same care as the high-salaried beneficiary. Also, when the system commenced in 1965, the whole cost for hospital benefits for those then retired was placed upon the current workers and their employers. This will be true again when the disabled are covered under hospital benefits in July of this year.

The present method of financing medical benefits (part B) under Medicare is a historical accident. Many of you know the background. The contribution by the Government is based on a sound principle which should be extended to the whole program. The charging of a steadily rising premium to persons already old or disabled is both unsound in principle and difficult to justify in terms of equity or control of cost. There is no more reason why the Government should contribute to part B than to part A. There is strong justification for having those covered under a merged program contribute their share while they are working, rather than when they are old or disabled.

As the Advisory Council of 1971 recommended, the increase in the Government contribution to one-third of the total cost could be made in graduated steps over a period of perhaps 4 years. This would involve a shift from 14.3 percent, this is on a cost basis, as of 1972, to 33.3 percent.

With a more adequate and rational mechanism of financing, our Medicare program can be steadily improved to do a more effective job in relieving the old and the disabled from the mounting costs of illness. As a partner in making contributory health insurance effective, the Government will be able to control over time, the mounting Government expenditures for Medicaid.

If we do not come to a three-way method of financing for Medicare, how are we going to move into general health insurance when that day comes? I am convinced that that move is inevitable. If you give away on payroll taxes, remember that you are going to have further heavy costs when Congress decides to move into health insurance.

Far more difficult than the rationalization of the financing of the Medicare program is the improvement of the distribution of the hospital, medical and other services for which Medicare pays.

The improved organization of the distribution of medical care in the United States is vital to the welfare of our people of all ages. It is a necessary step in the inevitable development of general health insurance. Until it is accomplished, Medicare will be pumping billions of dollars into a costly, cumbersome, and archaic system of coordinating and compensating the hospitals, doctors, and the supporting health personnel and services of the country. To ask Medicare to do the job alone is like trying to lift a bed by one leg. The man in the bed, the health professions of the country, has gotten restless.

It will require a wise and dedicated leadership of the health professions of the country and the strong support of the Federal Govern-

ment to lift the health system of the country to a level of effectiveness our people urgently require.

Apart from medical care, the most serious problem in the development of our national social insurance system is the coordination of OASDI with public assistance, on the one hand, and with private industrial pension systems, on the other.

As a contributory system paying benefits as a matter of right, OASDI cannot and should not fill the vacuum caused by an inadequate, disjointed system of public assistance. The recent legislation federalizing assistance programs for the aged, the disabled and the blind will help greatly in undergirding the social insurance system.

The OASDI benefits for normally employed, lower-wage workers should be sufficiently better than the level of assistance grants to justify their lifelong contributions. This is not a matter of a higher arbitrary minimum, but rather of an appropriate scale giving proper recognition to the relatively higher imputed need of beneficiaries at the lower end of the scale compared to their average lifetime earnings,

The major bend point in the lower part of the OASDI benefit scale has not been changed since it was set at \$110 in 1954. There is a good reason to believe that a higher bend point is now justified, even if the slope above that point might need to be slightly less steep. This would give beneficiaries in the lower part of the scale a better adjustment to their normal needs, still graduated according to their past earnings.

HOPES FOR PENSION PLANS

In planning the old age insurance program in the 1930's, it was fully expected that private, industrial pension plans would provide increasingly substantial protection, supplementing that provided by contributory social insurance. Private pension plans are an essential element in employer personnel programs in enhancing incentive and relating security to the full spread of normal earnings. But progress in improving private pension plans, in more recent years, has been much too slow. Inadequate arrangements for vesting and for security in financing have left millions unprotected.

Unless steps are taken to improve private pension plans, pressure will become insistent to push OASDI into higher and higher levels of salary coverage. This, to me, would be a mistake.

Contributory social insurance is not designed to be an all-inclusive program. It is rather a primary, national system of protection, undergirded below by public assistance, preferably on a nationally financed and administered basis, and supplemented above by many private means of added protection, including effective private pension plans.

I would like to end where I began. Contributory social insurance is a most valuable social institution for the prevention of hardship and poverty in an industrial, urbanized nation.

By providing differential benefits as a matter of right related to past earnings and contributions, it enhances incentive and self-respect.

It must be treated as an integrated concept and mechanism. Time-tested principles, developed in its long evolution, are essential guides.

Thorough planning and wise, humane and equitable administration are vital to its effectiveness.

We as a country, have been most fortunate in the leadership of our Social Security program over the past four decades. But there is much more to be done in the decades ahead.

Senator FONG. Will you go into more detail on how you do it?

Mr. BROWN. In the case of which, sir?

Senator FONG. In the case of Medicare, and the case of improving the medical delivery.

ORGANIZATION AND DISTRIBUTION OF MEDICAL CARE

Mr. BROWN. Sir, there are two sides, one is the financing side, which would be health insurance itself. The other is the organization and the distribution of medical care. The only way I can see that we can move on the latter—and we are already moving—is through group arrangements, centering about a medical center, a health center for the community, where the health services are organized around the hospital perhaps in the same general way that faculties are built around universities. We have at Princeton a large professional establishment, but individual professors do not charge fees. We are all financed by the same tuition fee, the same endowment, but we do not all get the same salary either. We get a salary according to our experience, ability, and so on, but the student pays a standard, uniform tuition fee, regardless of whether he has Professor X or Professor Y.

The change in the system has already begun. I am convinced that it will accelerate. I am on the board of a university that has a large medical school. I am convinced that young doctors, and wiser, older doctors as well, are coming around to the notion that they can provide a Cadillac-type of care under the present arrangement, but they are now seriously handicapped in handling what I call Volkswagen care.

Senator FONG. You think the delivery system is archaic and cumbersome now?

Mr. BROWN. Yes, sir, and I have medical friends who agree with us, not all by far.

Senator FONG. And the system you propose to gather all of these doctors into medical centers?

Mr. BROWN. It will have to be done by voluntary action, as you well know, but hospitals and doctors do work more and more closely together.

In the practice of medicine 50 years ago, the home or the doctor's office was where about 90 percent of his work was done. You only went to the hospital if you were ready to die. Now, you go to the hospital if you have a bad sore throat. The doctor's workshop is the hospital, just like a professor's workshop is a campus, so if we can encourage the building of these entities, medical centers, then the medical center decides that they can do business on a per capita basis of so many dollars, and the health insurance then will pay so many dollars, and we are on our way.

Senator FONG. You believe that costs will be cut?

Mr. BROWN. I do most certainly, because there are many wasteful costs today, not only in the location of hospitals, where they are overbuilt and underbuilt, but in duplication of facilities. There is a carry-

over of the old fee-for-service basis, which does not help every doctor, not the doctor up in the hills. But it helps make the medical profession the highest income profession we have because the pricing system is so disorganized. Medicine is a fine profession, but I think their method of financing their services is subject to serious study.

Senator CHILES. Mr. Brown, before you leave that, do you think there are other areas that we should put in general revenue?

You just used Medicare.

THREE-WAY FINANCING

Mr. BROWN. I would say, sir, over time, if we are to have a comprehensive general health insurance, it would be absolutely necessary to have it financed in three ways by employer, employee, and Government contributions. The basic concept is the protection of people, and you have to decide just how you are going to tap the productive flow of the country to do the job you want to do. To me, the three-way method is better than any other.

Senator CHILES. Are there other areas that you see in the total scheme now that we incorporate and under Social Security, and under the payroll taxes that you would use general revenue dollars?

Mr. BROWN. I will say, not under social insurance, but where general revenue will have to come in, State or Federal, is in the area of custodial homes. The provision of custodial care is not an insurable program. To determine just when an old person is invalidated—cannot take care of himself or herself, and needs to go into a custodial home instead of staying with relatives—is a kind of risk which we call a “moral” risk. Technically a “moral” risk cannot be insured since it involves varying individual and family attitudes.

I feel that Government financing, subsidizing, or other means will be needed to help the very old people who no longer can take care of themselves. That is a straight Government financing job, not social insurance.

Senator CHILES. Give me your opinion, if you will, and then taking your concept that the worker has this contract, or feeling of a contract with the Government that the benefits are tied in with the payments. Should that worker on the first dollar have wages that he earns, should he be charged under the Social Security, or under his withholding for something like a minimum benefit, which has no relation to what is being paid into the system?

It is something that Congress has just decided to give to people. It may be socially desirable.

Mr. BROWN. The question of a minimum benefit has always been a factor internal to social insurance. It is like catching or missing the ferry boat for Staten Island. There has to be a point where one gets on the boat or does not get on the boat.

Helping the low-wage worker is mainly a matter of the graduation in the benefit scale. Within the last Advisory Council, I argued for a higher proportion of benefit to average income in the lower of the scale, a bit more than is now the case. A minimum, on the other hand, is a very arbitrary figure. We have many Government employees who come aboard at the minimum despite the fact that they have entirely ade-

quate protection from Government retirement programs. A man who works Saturday mornings in a store can often get enough covered earnings to get aboard at the minimum.

Sir, I think we are going to disagree, but I feel that if a person gets a benefit as a matter of right, he should pay proportionally. Let me give you an illustration.

Many poor people take out hunting licenses. Many people take out automobile licenses. Most people, including poor people, when they improve the sidewalk in front of their house, expect to pay like other people for the benefit gained. You have any number of what we call dedicated taxes, where it is not just helping the Department of Defense or anything of that sort. It is where people get a specific return.

If I owned a lot on Maple Street, and they were putting in a sidewalk, I would not go out and say I should not pay for my share of that sidewalk even though it improves my property.

You see where our differences lie. I am also convinced that the feeling of self-respect is vital to social insurance to make it work. People are willing to pay these payroll taxes because it gives them a feeling of self-reliance.

Senator CHILES. This is where we disagree. I am so convinced that the working man is angry because he is paying more than his fair share for someone who has no relationship to where his benefits are, and then he is upset.

Mr. BROWN. Has that man who is sore got an old mother or father or friend that is disabled? I just heard last night of a final cancer case that went on Social Security benefits just this month. Has the man any friend who died and left three children and a widow? That is when this thing pays out.

Senator CHILES. Absolutely, but he is——

I will let you finish your statement.

REASONABLE DIFFERENTIALS

Mr. BROWN. If people get benefits that are equitable compared to other benefits, the system seems reasonable. I have never yet found a working person who objected to the graduated benefit scale, or the fact that the widow with two children gets more, or that the older widow should get 100 percent of her husband's benefits. Everybody knows that it is costing money, but those are relatively reasonable differentials.

Senator GURNEY. May I ask this question, as I understand it, you feel all workers should pay something toward Social Security.

As it is now, it is a fixed percentage, it does rise of course with income up to a certain point.

Do you think there should be any change there, or do you think the present system is correct, aside from the Government contribution?

Mr. BROWN. I feel there should be a constant percentage contribution up to a ceiling. Quite frankly, in the last Advisory Council, I argued against pushing up the ceiling too fast or too far because sudden changes cause concern. Also there are private insurance and savings schemes, private pension plans and the buying of a house which are ways of gaining security. We do not know whether a man in Ohio

would rather put some of his money into a house rather than into Social Security at a certain point. Therefore, I say we should stop at a certain figure.

Did I answer you, sir?

Senator GURNEY. Yes, I think so, although let us tackle it another way. As we all know now, that tax is pretty high, compared to what it used to be, and we also know that at certain levels, it is considerably higher than income tax, where income tax is paid. In most taxation, you do recognize ability to pay, the income tax recognizes that perhaps more than any other, but it is throughout most of our taxation, property taxation, you have an expensive house, you pay more tax.

In Florida, if you live in an inexpensive house, you do not pay any tax, because of homestead exemption, so my question is in the present theory of payroll taxes, Social Security taxes, I do not think we recognize that ability to pay nearly so much as we do in other taxation, particularly the income tax, so my question is should we?

Mr. BROWN. Well, again, in making an analogy between Social Security taxes and income taxes, it is comparing oranges with apples. That is one of the things I have had to argue against for many, many years. Take the case of the analogy with insurance, the word "insurance" is like the word "fruit." You have apples, oranges, and bananas which are all kinds of fruit. But the real test is not that they are fruits, but what they are as specific kinds of fruit. I had a bit of a battle with the Reader's Digest on exactly this. A writer said that social insurance was not an apple, but an orange. Then he criticized it because it wasn't like an orange.

This is using transposed terminology. You have to decide upon the definition of the thing you are discussing. Otherwise exact analysis is impossible.

WHAT IS SOCIAL INSURANCE?

You have to decide what social insurance means. A committee of experts on insurance terminology has fully agreed that social insurance has a right to be called social insurance, just as private insurance, can be divided into several specific entities.

Senator GURNEY. I would simply make this remark there, that they are different, that is true, but I do think there is certainly a common relationship.

We are talking of income of people by which they have the ability to buy their necessities of life, and perhaps the luxuries, depending on what they get.

We are also talking about Social Security to do those same things, so I think it is very closely related, and it seems to me there is a cross connection.

Mr. BROWN. All insurance uses group methods of providing security for the individual by merging his risks into a group risk and then estimating over time what the costs of the individual protection will be. That is essentially the concept of insurance, the sharing of risks.

Take fire insurance. It is the most clean cut. You insure your house, and 5,000 others do the same, and your house burns, and the others then pay for your house. That is essentially insurance. The confusion is that in private life insurance, for example, because it is purely pri-

vate, you have to build reserves, to pay out if they all die at once. They have to have greater reserves than a bank. A bank never expects everybody to draw out their money at the same time.

Social insurance besides being insurance is built on the assumption of a transfer process. It is making a transfer that already existed, that a farmer having an old mother supported the old mother, and when the farmer got old, his son supported him.

ABILITY TO PAY

Senator GURNEY. I understand that, but I think also it has to do with income and ability to pay.

If everybody had the ability to pay, because we were wealthy, able to accumulate wealth and buy property in a lifetime, we would not need Social Security, but the reason we have it is that millions and millions of our people are unable to do that, because probably it is that they do not earn enough during a lifetime.

Some are not quite as able in managing the money or investing as others, but the point of the matter is we are talking about income, enough income to survive on, either at the working stage, and having enough income to survive has a whole lot to do with what governments, all governments take away from people in taxation, and we are talking about sufficient income at the end of one's useful life coming from the Government in this way of social insurance, and it is totally tied to income.

I am not saying you are wrong in your concept. I am simply saying it is tied to income, and maybe there is an argument that you should recognize the principle of the graduated income tax, and I was simply asking you to comment on that.

Mr. BROWN. Sir, the place where I bring in the income tax is through a three-way support of the system. That was contemplated by the staff of the Committee on Economic Security in 1934-35. It was estimated that the Government contribution should begin in 1965, because until that time, there would be sufficient proceeds from payroll taxes. If you had the Government contribution too soon, you would have to invest the funds in Government bonds. But by a time like 1965, in order to balance out, it was believed necessary to have a Government contribution as the third leg of the stool.

Where the offset to the so-called regressivity comes in is that when you have a Government contribution, by so much, you temper what my colleague here would consider the regressive nature of the tax. You are blending in a progressive element, which you could make as progressive as you want. What I am desperately anxious is that we keep this entity of contributory social insurance a single entity, and not pour out the baby with the bath.

That was the way those of us who worked on it in the beginning were able to convince Congress. It was a good thing to do, that it had been tested out in 30 countries, that it is what labor and employers would understand and accept.

This is a delicate mechanism. You take risks, and I might say in the hearings of the Ways and Means Committee in January 1935, we all took a shot at the Townsend Plan. I said it was dangerous and illusionary. I got fan mail from all over, including a man who threatened to come and shoot me. He said he needed the Townsend

money. He was in California. So I told my wife we did not need to worry, because he was in California. Dr. Townsend had a theory that, in some way, the Government of the United States could make enough money available to pay everybody \$200 a month, each man and wife. They had to spend it in 1 month to make a so-called transaction tax work to raise the money.

Senator GURNEY. It is not so much of a question of the semantics as it is a concept that everybody ought to bear a part of the load.

Is not that really what you are arguing?

SAFEGUARD THE SYSTEM

Mr. BROWN. I might add a deeper purpose. It is not only to assure the self-respect of the individual. It is also to safeguard the system. I am worried when a needs test gets mixed up in a social insurance system.

Senator FONG. You go back to the first premise, you have to look at this thing as a whole. You cannot say this is progressive or regressive, and this is a benefit, and then forget about the benefit and talk about tax payments. You have to look at the thing as a whole, and say, "This is a system, and since it is working, let us keep it." Is this what you are saying?

Mr. BROWN. That is right. That is why I mentioned the bumblebee at the first. If you want the answer to the bumblebee question, one of the best aerodynamists I know at Princeton said they started on the wrong track, on a fixed wing basis, instead of a helicopter basis. A bumblebee and a hummingbird fly by a forcing down draft. Shall I proceed?

Senator CHILES. Please do.

Mr. BROWN. Thank you.

Senator CHILES. Would you comment on the future growth of private pensions and their relation to Social Security?

Mr. BROWN. Yes, sir. The great majority of pension plans are now integrated in effect. The rate of contribution, the appropriations for the private plan are cut down at the lower segments, and then increased at the higher.

I feel first of all, in a three-way system of security for our people; public assistance should undergird all other means. The man who falls off the economic trapeze, should be protected by that. The contributory social insurance system is the primary solid, middle core. Private plans, savings plans, including private industrial pensions make up the third tier.

The trouble is with the lack of adequate vesting in many private pension plans, or very late vesting, like age 50 or 45. A great many people never get protected. They may think that they are protected, but they are not.

I would strongly recommend more immediate, earlier vesting, gradually moving in step by step. You cannot ask private employers to do it all overnight, or the Congress to do things overnight, but to have improved vesting such as on a 10-year basis in the near future. Some of the oil companies are now down to 10 years vesting.

Another thing is the financial responsibility of private pension plans. There have been many cases where companies have gone out of business. I heard of one the other day in Rochester where they ended

up by paying out some of the fellows already on pension but the men from 65 to 55 got nothing. If you are going to commit yourself to provide a supplementary benefit, and it is part of a deferred wage, then it should be fiscally controlled and financially sound.

The Internal Revenue Service will disapprove certain elements of discrimination between salary levels in pension plans under tax regulations. The Federal Government has plenty of authority. When a corporation says we are setting this money aside as a pension fund for our people, it is a part of the cost of production. That money should be safeguarded so that it is there when it is needed.

GOVERNMENT CONTRIBUTIONS 1944-50

A. Compilation of the Social Security Laws (including the Social Security as amended and related enactments through May 1, 1945) SSB—1945 p. 5

Section 201 (a).—"There is also authorized to be appropriated to the Trust Fund such additional sums as may be required to finance the benefits and payments provided under this title." (The last sentence of subsection (a) was added by the Revenue Act of 1943.)

B. Public Law 734—81st Congress (Chapter 809—2nd Session) HR 6000 p. 50

"Social Security Act Amendments of 1950"

Section 109(a) (3).—"Section 201(a) of the Social Security Act is amended by striking out the following (same as above).

Senator CHILES. Thank you very much.

Mr. BROWN. Thank you.

(See supplemental statement, p. 218.)

Senator CHILES. Our next witness is William L. Mitchell, former Commissioner, Social Security Administration, and consultant to National Retired Teachers' Association, American Association of Retired Persons.

**STATEMENT OF WILLIAM L. MITCHELL, FORMER COMMISSIONER,
SOCIAL SECURITY ADMINISTRATION, AND CONSULTANT TO NA-
TIONAL RETIRED TEACHERS ASSOCIATION—AMERICAN ASSO-
CIATION OF RETIRED PERSONS**

Mr. MITCHELL. Thank you, Mr. Chairman.

I appreciate this opportunity, however brief, to get back in the harness again. And I commend the committee for arranging this forum to explore the impact upon our Social Security program of the rapid economic and social changes within our Nation. This trend, as I see it, is likely to continue, and the implications for our elderly citizens will be no less serious than has been the case in the past.

While I retired some 10 years ago as Commissioner of Social Security after 26 years direct involvement with the program, I have maintained a very real interest in the system. That interest has become concern in recent years as I have studied some of the new Social Security proposals—particularly those suggestions for fundamental changes in the present system, or, more disturbing, proposals to jettison entirely the present program for a new set of principles, objectives, financing systems and, I suppose, a new form of administration.

Now please do not identify me with the man who said: "There have been many changes in my time, and I've been ag'in every one of 'em."

People—and systems—must change, or they die. But since retirement, I have observed little justification for any substantial departure from the principles and policies which guided the enactment of the income maintenance sections of the original Social Security Act.

In the brief time I am allotted, I would like to share with the committee some observations about some of the proposed changes which seem to dominate current interest. The attempts to load onto the system goals which exceed its intended, and I think feasible, objectives. The use of general revenues to help finance the Social Security system; and the proper method of insuring adequate, responsible reviews of the program to guarantee that rightful changes are rightfully made. At the outset, we must recognize that the backbone of a sound Social Security system is a sound economy. If we cannot bring inflation under control and expand employment, liberalization of Social Security becomes little more than a temporary palliative to meet the income needs of the elderly, and probably a dangerous one.

SYSTEM OVERLOAD—A QUESTION OF ENDS AND MEANS

Precisely because our Social Security program has proved through experience to be so economically and politically sound in pursuit of its clearly defined goals, the tendency through the years has been to use it as a means of accomplishing other worthwhile social goals. It is this tendency that has brought to the forefront new questions about financing.

I will not take your time to recount fully the philosophical basis for our present program. But it is vital to recall that our system is based upon the prime objective of protecting the worker against part of the loss of employment income due to old age, retirement, death of the breadwinner, or permanent disability.

We now have a system which is distributing more than \$40 billion a year to some 28 million OASDI beneficiaries, many of whom are almost completely dependent upon their Social Security check for a livelihood. Our system is contributory, compulsory and practically universal in coverage. Benefits are wage-related and those covered have the legal right to their benefits. It is financed completely by a tax on the employment income of the worker, his employer and the interest earnings of the trust funds.

Moreover, the system is designed to establish only a floor of protection, with the anticipation that the floor will be maintained so as to reflect social and economic changes, such as improvement in quality of livelihood and changes in wages and prices. The upper level of protection is intended to reflect the requirements of a decent and adequate level of living, while still promoting personal incentive and avoiding undue competition with private insurance.

The system was conceived—and today operates—as only one of three interrelated methods of meeting the income needs of the elderly. A second level of support is the supplementary program of public assistance, based upon need rather than upon an insurance-type of income protection. The public assistance program recognizes that no social insurance system can ever be made so complete or so adequate to take care of everyone's essential living needs.

It presumes that there will always be a large number of citizens who, because of lack of substantial attachment to the labor market or because of meager earnings, are unable to afford a contribution to an insurance program sufficient to purchase a benefit large enough to live on. The adult categories of public assistance were federalized by the recent amendments, as they should have been from the beginning, and the costs are to be met from Federal general revenues.

The third layer of protection is through private pensions, private insurance devices, home ownership and personal thrift—designed to meet the aspirations of those who can afford and who desire a retirement income beyond the upper level of the social insurance group.

Some professionals—mainly economists—contend, with some justification, that many of the program objectives I have briefly summarized, are not effectively accomplished in our present program. And to make their case, they dramatize some apparent inconsistencies. Benefits, they argue, are not fully wage-related. People in like circumstances are not always treated exactly alike. We haven't achieved complete universality. The Social Security tax is regressive and unfairly burdens the poor.

Indeed, some of their arguments are valid. And in considering further reforms, Congress should probably give priority attention to ameliorating some of the regressivity and inequity in the present payroll tax. One method suggested is the elimination of the limit on the taxable wage base, thereby making the tax proportional to earnings and overcoming the present difference between single- and multi-earner families in the same bracket. I do not recommend such a change. In fact, I recommend against it but recognize that it has some support.

While inconsistencies and instances of a lack of precise justice may be found in OASDI, my feeling is that on the whole our brand of social insurance is accomplishing its objectives exceptionally well, and has met an astonishing degree of public acceptance. Needed changes should continue to be made in the future, as they have in the past. But I believe it would be hard to overestimate the hazards which would accompany a substantial, no less complete, departure from the philosophy which has undergirded our system for more than 35 years.

USE OF GENERAL REVENUES IN OASDI

The growing demand for the use of general revenues to help finance the Social Security system poses for me serious questions of theory and practice. Advocates of such supplemental financing argue that if we continue to increase benefits without a Government contribution, the consequent Social Security tax burden upon both the wage earner and the employer will soon produce a backlash of public criticism and resistance. Some evidence of this, indeed, is already surfacing.

Theoretically, I fear that the use of general revenues to finance part of the income maintenance component of Social Security will undermine the high value our working citizens place upon the understanding that his retirement benefit will come to him as an earned right, an asset that he worked and paid for, not as a Government handout. This attitude, of course, is one of the distinguishing and, I think, valuable characteristics of social insurance as compared with public assistance.

Practically, I fear that a general revenue contribution would mean more deficit financing, add to the public debt and increase the inflationary spiral so destructive to the welfare of the elderly. If the worker is relieved of the necessity of equating an increased benefit with a higher tax, there is the possibility—I would say, probability—that he might become more aggressive and irresponsible in his demands. General revenues are already required to help finance Medicare, but considerations of time and space have led me to exclude a discussion of health care from this testimony.

While the possible use of general revenue is one of those changes which may be needed in the future, as increased benefits are deemed essential, I am hopeful that these costs can be met out of the proceeds of an expanding economy. I was encouraged, therefore, by Commissioner Ball's testimony earlier that the tax effective in 1974 under the new amendments should be sufficient to finance the OASDI program until after the turn of the century.

AUTOMATIC ADJUSTMENT AND PERIODIC REVIEW

May I now make an observation or two on the recently enacted provision for automatic cost-of-living adjustments in benefits and taxes. As with most important changes, this is filled with potential for good and bad. It is good, of course, that this mechanism will help insure that the system is made more sensitive to inflationary influences. But if the automatic nature of the provision diminishes the thorough, periodic review of the system needed to insure its continued dynamism, it is potentially bad. My experience in Social Security convinced me of the desirability of periodic reevaluation of the whole Social Security system, not just benefits and taxes.

Four or five advisory councils of the past made very important contributions to this type of evaluation and their reports constituted a source of reliable assurance to the working public. Their efforts, however, did not serve too effectively as an offset to the political influences sometimes brought to bear on Social Security amendments, particularly in election years. If the automatic adjustment provision tends to freeze the balance between benefits and taxes existing at the time the law was changed, leaving no room for socially desirable adjustments, it can have a further damaging impact. Congress, of course, can change this device at its will and I recommend that the direction toward automation be regarded as experimental and be reevaluated from time to time.

A SOCIAL SECURITY BOARD

With this new provision, and with the addition of Medicare and the adult categories of public assistance to OASDI, I suggest that this may be an appropriate time to consider the desirability of setting up a bipartisan board to help guide the future destiny of these programs. It will be recalled that the original Social Security Act of 1935 provided for such a board and the program was under its administrative supervision for the first several years of its existence.

Surely the wisdom, objectivity, and intense work of that body contributed immeasurably to the design and development of an organization which today is known for its excellence and efficiency. The policies

and principles which that board developed still guide an organization which has responsibly disbursed billions of dollars in benefits with never a breath of scandal and which continues to enjoy the confidence and respect of the American people.

Such a board could be expected to provide continuity to the policies and practices of the past and would be sensitive to the wishes of both the Congress and the President, as well as to political considerations. This is not the place, nor am I prepared to go into detail regarding formulation of this board, but I am convinced that it would serve the same worthwhile purpose as it did originally.

During the last Congress, I believe a bill was introduced to establish a Social Security Institute as an independent agency designed to serve a quite similar purpose to that which I am now suggesting. I fear that an Institute would be duplicatory of much that is already being done. It would tend to create a competitive and defensive attitude between the Institute and the operating organization which would be a source of considerable mischief. And it would be expensive.

So far as I have been able to observe, there has been no public demand for such a research and review organization, nor any lack of confidence in the capacity and integrity of the existing organization to continue to fulfill satisfactorily all the demands that are made upon it.

In conclusion, Mr. Chairman, may I simply urge that the thrust of future Social Security legislation should be directed toward further perfection of our present system, and not to violent change that would damage both its soundness and acceptance.

I appreciate very much this opportunity to appear before the committee, and kind of very briefly get into the harness again.

I realize that time is an element, and I was anticipating being the last witness, that I might be pressed.

RECOMMENDATIONS

I undertook, in addition to my prepared statement, some brief notes, but again, recognizing the lateness of the hour, I have compressed that further into four points that I would like to make very briefly.

First, I would be seriously concerned about changes which may not be accomplished within the existing policies and principles which brought our program to almost universal acceptance, and which has done more than any other single program, Government or otherwise, to reduce poverty.

The next, I strongly recommend that we hold to the basic objective of social income insurance, which is to protect against loss of income due to old age retirement, disability, or death, and not burden the program with other programs. Then I strongly recommend against the disturbing of the satisfaction which the worker now feels that his benefit is his because he worked for it, and he paid for it. My fourth point is a relatively new concept, and one I feel a reasonable degree of confidence in, because my background has been essentially administration of Social Security, rather than the theoretical background of it.

The original Social Security Board under which I began my service with Social Security, and its successive Commissioners brought the direction and administration of the old age survivors and disability aspects of the maintenance of income program to its present state.

The addition now of the adult categories of public assistance to the Social Security Administration, and with the growing interrelation of these two programs with private pensions, I can see the need for greater coordination and control among them.

This task might well be one that could best be handled by the re-establishment of either the former bipartisan Social Security Board or Commission; something akin to it. Therefore, I strongly recommend to the committee that this sort of organizational approach be given serious consideration.

Such a board being bipartisan would have a special sensitivity to the wishes of both Congress and the President, and might be expected to provide greater continuity during periods of political change, as compared to a separate Social Security institute reporting either to Congress or the President or both, which I understand has been proposed. I am not familiar with the details of it.

I would think that a bipartisan board with administrative responsibility for the larger programs would serve all of the purposes of an institute, and do it more effectively at much lower costs, and without duplication.

Those are the points that I reduce my testimony to, Mr. Chairman.

Senator CHILES. Thank you very much.

Senator FONG. You feel that this board can be of invaluable service in looking at the program, studying it, seeing what the costs are, and to see where we are going?

Mr. MITCHELL. I saw them do it, Senator, for 10 years, and I feel they can, I feel they did, I feel they did it successfully. I feel the confidence that the public has in the character and status of the program, and in its administration to date is a direct reflection of the contribution that the original bipartisan Social Security Board made to this program.

Senator FONG. I wish you would continue that, because the program is getting bigger and bigger. This is one of the biggest businesses in the whole country.

Mr. MITCHELL. That is right.

Senator FONG. I have no further questions. Thank you.

Senator CHILES. You have expressed your concern that any change that the Congress might make to include the general revenue as a means of financing, do you have any concern that we have recently raised the tax on middle income earners to what we have in the last round, does that give you any concern?

Mr. MITCHELL. The concern is reflected already, I think, in the fact that the contribution necessary to support this level of benefits is raising some resistance among those who pay the taxes.

I am concerned about the idea of bringing considerations into the overall picture of financing Social Security which disturb the psychological attitude of people toward getting what they pay for is important.

BURDEN ON WORKING MAN

Senator CHILES. How long is that attitude going to persist, when you continue to put all of the burden on the working man?

Mr. MITCHELL. I think that it is a very serious problem. I don't know, and I think—

Senator CHILES. The natives have been quiet for a long time.

Mr. MITCHELL. I feel that is one of the reasons that this committee is so deserving of compliments of the public to foresee that type of problem, and making investigations necessary to see what can be done about it.

Of course, I believe that Commissioner Ball in his testimony the first day, so far as the income maintenance program, the social insurance part is concerned, he said that the program has reached the point now, with the new amendments, where nothing more needs to be done to it, until after the turn of the century.

I presume the implication of that testimony was that the tax problem will not become more aggravated than it is now.

Of course, when we move into the expansion, the very considerable expansion of the health programs, then of course the tax bite is going to be substantially more difficult to handle.

Senator CHILES. Thank you very much.

We want to thank all of our three distinguished witnesses for their testimony, and this concludes the first round of hearings on "Future Directions in Social Security."

Additional hearings are not now scheduled, but they will take place during the year 1973.

The hearings are adjourned.

(Whereupon, the hearing was adjourned at 12:20 p.m. subject to call of the Chair.)

APPENDICES

Appendix 1

ADDITIONAL MATERIAL FROM WITNESSES

ITEM 1.—SUPPLEMENTAL STATEMENT OF MR. JOHN A. BRITAIN, THE BROOKINGS INSTITUTION

FEBRUARY 26, 1973.

RESPONSES TO QUESTIONS CONCERNING REFORM OF THE OASDHI PAYROLL TAX

I was asked at the hearing to provide details of several phases of reform of the social security payroll tax, the associated changes in its yield, and the distribution of tax savings by income rank. I have made no detailed fresh estimates and must rely on earlier work to indicate roughly the magnitudes involved in several approaches. They will be described as though they had been put into effect in 1973, when the present OASDHI tax is expected to yield about \$3.4 billion.

All of the plans could be administered on a withholding basis, as under the income tax. Any excess withheld or underpayment due would be adjusted when the income tax return is filed. Another common characteristic of each approach is that the pooling of husband and wife earnings for tax purposes would eliminate, or at least alleviate, the current discrimination against married couples. (If relief from the employer tax were excluded, an element of discrimination would remain, assuming that it is true that earners actually bear that tax as well as the employee portion.)

The exemption approach is intended to eliminate the most objectionable feature of the tax—its severe pressure on families officially classified as within the poverty range. However, the tax on these families has been repeatedly defended on the grounds of the "contributory principle," the importance of this for self-respect, and the confidence in ultimate payoff it is said to provide. If these considerations are generally regarded as important, they could be taken into account by a slight modification of the exemption schemes to be discussed. For example, instead of completely exempting the first portion of earnings, it could be taxed at a very low rate, say one-tenth or less of the current tax rate. Everyone would then continue to contribute toward benefits as at present, but this *nominal tax* on the first slice of earnings would be more defensible (as a device for preservation of the relationship between benefits and contributions) than the current heavy tax.

The phases of reform to be discussed fall in four broad classes. All phases entail some degree of payroll tax reduction and replacement by the income tax. (Purely internal payroll tax reform could also be effective and possibly more politically acceptable, as discussed in the note at the end of this statement.) The order of discussion was determined by convenience of exposition. Plan B would reduce payroll tax revenue the least, followed by C, A, and D in that order. It should be repeated that the estimates discussed are rough and highly tentative. More accurate estimates of their effects are obtainable but would require new computer programming.

A. EXEMPTIONS AND ALLOWANCES FOR ALL FAMILIES

Under this approach, essentially the same exemptions and low-income allowances would be allowed against pooled family earnings as those applicable under the individual income tax. (The proposal differs slightly from the income tax

treatment by excluding itemized deductions, as well as exemptions for age and blindness.) Thus a family of four earning \$4,300 would be completely exempt from the tax due to exemptions of \$3,000 and a low-income allowance of \$1,300. This plan would lose a substantial portion of payroll tax revenue, since it gives payroll tax relief to *all* earners and only the first \$10,800 of annual earnings is covered in the first place. I estimate that if applied to the employer, employee and self-employed portions of the tax it would reduce the 1973 payroll tax yield by roughly 45 percent. If relief from the employer tax were excluded from the scheme, the yield loss would be on the order of 25 percent, or \$16 billion.

Pooling of earnings for tax purposes would reduce the discriminatory tax now paid by married couples whose combined earnings exceed the taxable maximum. The redistributive effect of the change would depend, of course, on the tax used to replace the lost revenue. For example, the plan excluding the employer tax could be financed with a rise in income tax rates of about 15 percent. In the case of a family of four with one wage earner at \$4,300 or more, the payroll tax saving would be \$251.55. Even with a 15 percent rise in income tax rates there would be a net tax reduction for four-person families with incomes below a "break-even point" at about \$13,600. (This assumes the family received earned income only.) If the exemption plan were applied to the employer tax also, the tax loss could be recouped by an income tax increase of about 27 percent. The payroll tax saving for this family of four would be about \$503, and families in this category would be better off below a break-even point at about \$14,500. Finally, whether the plan applies to the employer tax or not, most two-earner families would save even more payroll tax, and the break-even point for them would be correspondingly higher.

B. TAX RELIEF RESTRICTED TO LOW AND MIDDLE INCOME FAMILIES

A variant of the above plan could save revenue by phasing out the exemptions and low income allowances in order to restrict them to low and middle income families. For example, the value of the exemptions and allowances could be reduced by the amount by which it is exceeded by family earnings. A family of four at \$4,300 would be completely exempt from payroll tax, but above that level the exempt amount would be gradually reduced until it was completely removed at the earnings level of \$8,600. This modest scheme would reduce payroll tax revenues about 12 percent in 1970, and less than 7 percent if applied only to the employee and self-employed portions of the tax. Thus this plan, which gradually withdraws tax relief as earnings rise, would reduce revenues by little more than a quarter as much as Plan A. It could be offset by an income tax increase of less than 8 percent, or only 4 percent if the employer portion of the tax were not allowed exemptions.

Since the exemptions and allowances are reduced as earnings increase, gains would not extend as high on the earnings scale as in Plan A. For example, the one-earner family of four saves no payroll tax if its earnings are \$8,600 or more. Whether or not the plan is applied to the employer tax, the rise in income tax rates to recoup the lost payroll tax revenue would lead to a break-even point at about \$8,200 for this family size. So, while the revenue cost of phased-out exemptions is very modest, the overall change would help a considerably smaller fraction of all taxpayers than the universal exemption approach in Plan A. The burden on upper income groups would be less, of course, because the required income tax increase would be lower.

C. EXEMPTIONS OR ALLOWANCES FOR ALL FAMILIES PLUS REMOVAL OF TAXABLE CEILING

Instead of phasing out the exemptions as in Plan B, Plan A could be at least partially financed by removal of the taxable maximum from both employer and employee taxes. For example, the complete removal of this ceiling would fully offset the cost of introduction of exemptions and allowances for the employee and self-employed portions only; payroll tax revenues would remain virtually unchanged. Allowance of exemptions and deductions for the employer tax also would produce a net payroll tax revenue loss on the order of 19 percent. This revenue could be recouped by a rise in income rates of about 11 percent. Computation of the break-even point for this plan is more complex, because it ends the payroll tax exemption above the \$10,800 level, in addition to introducing exemptions in the lower ranges. However, for a family of four with a single wage

earner, an 11 percent income tax increase would lead to a break-even point at about \$12,400. This is somewhat lower than the \$14,500 figure obtained in the case of Plan A applied to all categories of the payroll tax. For this particular family size at least, the reduction in the income tax increase for the \$14,500 family is more than offset by the higher payroll tax due to elimination of the taxable ceiling.

With respect to the employer tax and the two-earner family, the same generalizations apply here as in the case of Plan A. Application of the exemptions to the employer tax (in addition to employee and self-employed taxes) requires greater reliance on the income tax and produces a somewhat higher break-even point. As in the other cases, most two-earner families would fare better under this reform due to their greater payroll tax reductions without greater income tax increases.

D. FULL REPLACEMENT OF THE PAYROLL TAX BY THE INCOME TAX

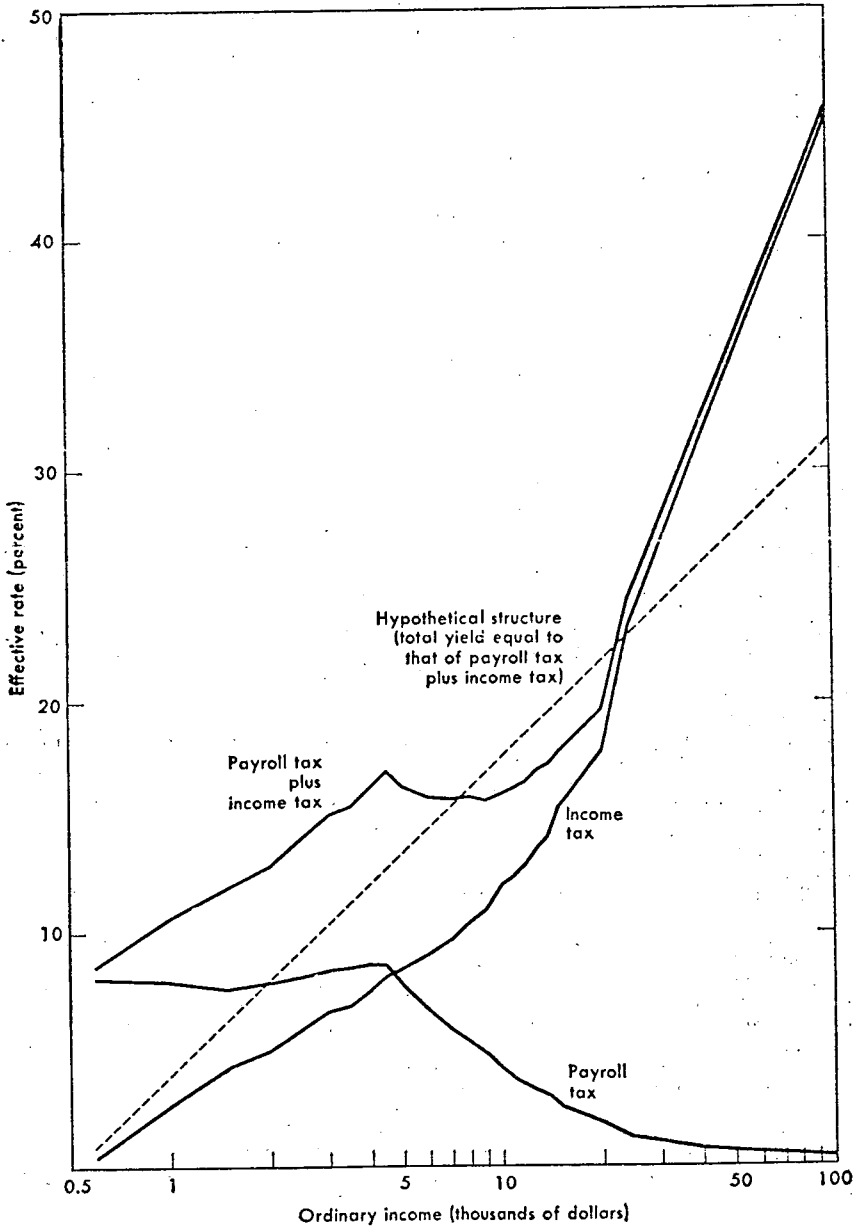
This more substantial overhaul of the tax structure is more difficult to analyze, since the required income tax increase is so large that the rate structure would have to be completely redesigned. It would require a 55-60 percent increase in the income tax yield to replace completely the payroll tax in 1973—about 30 percent even if the employer tax were retained. The effect of this on particular income brackets would depend on the nature of the new income tax rate schedule. Its design would require substantial additional analysis and computation, but some potential properties can be inferred from my earlier analysis of the tax rates of 1969 applied to the 1964 income tax return distribution.

Figure 1 presents four curves—each relating sets of tax rates to ordinary income. Certain properties illustrated there are undoubtedly present in today's tax structure. The payroll tax is regressive above the ceiling. The *combined* payroll and income tax rate curve is also objectionable on two main counts of inequity. First, the rate on incomes below the payroll tax ceiling appears unjustifiably high, especially for incomes in the officially defined poverty range. Second, the dip in the combined rate above the ceiling is clearly unjustifiable. These inequities invite complete substitution of the income tax for the payroll tax. It would not be possible to do this by increasing all income tax rates by the same relative amount, because this would raise the top marginal rate above 100 percent. The entire structure would have to be remodeled.

The hypothetical rate function represented by the dotted line in Figure 1 illustrates some of the many ways in which the current situation can be improved. It is a progressive linear rate function which produces the same yield as the combined rate curve and has four desirable properties: (1) the combined payroll and income tax on very low incomes is largely eliminated, (2) the regressivity in the present combined rate (for a substantial range above the ceiling) is eliminated in favor of a smooth, progressive rate, (3) regressivity at the top of the distribution is ended, and (4) incomes near the median and below receive net tax relief at the expense of other income ranges currently favored by inequitable depressions in the rate curve.

What does this illustration tell us about today's situation? First, an income tax rate structure embracing the same four desirable properties could be designed now to replace the present inequitable combined rate curve. In the earlier illustration there are two break-even points; only incomes in the \$7,000-\$40,000 range would have been required to pay higher effective tax rates, with a maximum increase of about 4 percentage points. However, earnings have risen about 50 percent since then, and the payroll tax rate and the relative ceiling have both increased above those used in the illustration. As a result, the payroll tax yield has risen from 45 percent to 55-60 percent of the income tax yield. In the absence of an elaborate new computation, the break-even point that would be found in 1973 for a reform analogous to that in Figure 1 can only be conjectured. However, a four-person family with one wage earner at or above the ceiling today would save \$632 if its employee tax alone were ended. If all income tax rates were raised 30 percent to recoup employee and self-employed taxes only, the break-even point for this family of four would be about \$16,000. The relative position of the ceiling may be crucial in these comparisons. For example, the first break-even point in Figure 1 is about 46 percent above the ceiling. If the same turned out to be true in 1973, the break-even point would be close to \$16,000, or nearly equal to that indicated in the previous four-person illustration. A break-even

FIGURE 1. Effective Payroll and Income Tax Rates and Combinations of the Two, by Income Class, Using Income Data, Ceiling, and Income Tax Structure of 1964 and Payroll Tax Rates of 1969



point greater than those in any of the first three plans is, of course, to be expected under the simple hypothesis that the greater the degree of elimination of payroll tax in favor of the income tax, the greater the number whose taxes would be reduced.

These estimates are extremely rough, and obviously the break-even point varies with family size, deductions, amount of property income and other factors. New analysis is needed to provide a more reliable picture. Even without it, however, two generalizations appear in order. First a single modified tax structure can eliminate several major inequities in the present combined payroll and income tax structure. Second, the break-even point is sufficiently high that a substantial majority of the earning population would gain from it. Furthermore, these major reforms could be accomplished with realistic tax rates on high income groups, and with tax rates on upper middle income groups more in accord with their ability to pay.

A note on internal reform

A purely internal reform of the payroll tax has not been discussed here, although the most serious inequities could also be eliminated in that way. For example, a large increase in the taxable ceiling (short of complete removal) would be sufficient to finance exemptions from payroll taxes (including the employer tax) suggested in the modest Plan B. The payroll tax rate structure could even be made consistently progressive throughout, just as the benefit structure already is. From the point of view of equity and the ability to pay criterion, this approach is less efficient than substitution of the income tax. Even if exemptions allowing for family size were extended to all, unearned income is excluded in determining a payroll tax base. However, internal reform of the payroll tax should be considered if opposition to the income tax alternative and general revenue financing remains strong. Opponents of other forms of financing might find an ending of payroll tax regressivity just as acceptable as progressivity in the benefit structure, about which no one seems to complain. This approach could satisfy the criterion that everyone contributes without imposing an intolerably regressive tax on the current working population. Benefits could continue to be related to taxes paid, although the lifetime benefit-tax structure would be more progressive than at present. Progressivity on a lifetime basis has already been accepted for the system, and there is no law limiting the degree of lifetime progressivity. It is difficult to see how anyone accepting progressivity in the benefit structure could reject it in the tax structure as long as everyone pays something, and benefits continue to be related to past earnings and taxes paid.

ITEM 2.—QUESTIONS SUBMITTED TO MR. BRITAIN

Subsequent to the hearing, Senator Church, chairman of the committee, submitted additional questions in a letter to Mr. Britain. The questions and answers follow. Information to be supplied at a later date will be published in the appendix of future hearings.

THE PAYROLL TAX FOR SOCIAL SECURITY

(Questions to John A. Britain)

1. *In your book, you contend that Social Security is not insurance based in part on the fact that the Government made that argument in the case of Fleming v. Nestor. Are you aware that the majority opinion of the Supreme Court held that Social Security "may be accurately described as a form of insurance?" Are you also aware that the Congress and a significant part of the private insurance industry refers to social security as a form of insurance and that similar programs in other nations are described as social insurance programs?*

1. In my book, my statement, and in the ensuing discussion, I explicitly accepted the view that social security has some elements of insurance, or is a "form of insurance," as stated by the Supreme Court. However, I chose to stress

the court's view in the same case that "the noncontractual interest of an employee covered by the Act cannot be soundly analogized to that of the holder of an annuity, whose right to benefits is based on his contractual premium payments." The government made essentially the same point in seeking to deny benefits to a person deported for subversive activities. Thus one conception of an "insurance program" was rejected in denying benefits, while a broader conception of insurance has been continually invoked as a defense of this regressive tax. In short, I am aware that social security is widely thought of as a "social insurance program," but I shall continue to stress the noncontractual and loose nature of the connection between individual taxes and benefits. I believe that it is essential to do this to refute the frequently espoused myth that under social security rich and poor alike are paying the same for what they get, just as in the purchase of a loaf of bread. Income redistribution is already taking place under the system, and I am simply urging that this redistribution be extended to include, at the very least, tax relief for low income persons.

2. *You state on page 9 of the book that "individual benefits are not closely related to the tax paid," pointing out that retirees in the early years of the program receive benefits far in excess of the social security taxes they paid. Is this feature of the social security program really any different from employer pension plans or group insurance plans? Or is it any different from private life insurance where two individuals, each age 21, buy life insurance contracts paying equal premiums for the same amount of insurance coverage and where one of them dies a month after the purchase and the other pays premiums for 40 years or more? Are the insurance benefits "closely related" to the premiums paid?*

2. It is true that the connection between individual benefits and contributions is loose under some private pension plans and group insurance. However, these terms are the result of private agreements and thus differ fundamentally from social security which is financed by an involuntary tax imposed by the government. This tax represents public policy, and I believe that all public policy should be reviewed and molded by the electorate and its representatives.

The latter part of this question looks more like a debating ploy than a serious argument. I trust that no one really believes that in contrasting social security with individual contractual insurance and annuity programs, I meant that everyone receives the same return on his dollar under the latter. I am aware that a person who dies young gets a high return on a life insurance policy, but I believe practically any reader of my book must know that I am talking about the actuarial value (or expected value) of the commitment to retirees. Obviously the individual purchaser of a private lifetime annuity gets a better return the longer he lives, but the important thing is that two individual buyers with equal life expectancies are charged the same for a given annuity contract. This, of course, is not true under social security, and I am not proposing that it should be. I am only insisting that the redistributive and noncontractual nature of social security be recognized to pave the way for tax relief for low income families.

3. *Your calculations that show that most workers will get a fair rate of return for their Social Security contributions—a rate of return which is better than they could expect to get from a private savings program—even if the employer Social Security contribution is imputed to the employee are based on the Social Security law in effect in 1966. Since then, the Social Security cash benefits program has been substantially expanded, provision has been made for automatic increases in both benefits and the earnings base, and cash benefit contribution rates for the period 1978 through 2010 have been reduced. How do these changes affect your calculations?*

3. In my book the estimates of lifetime rates of return were based on the official 1966 tables of "percentage of average monthly earnings replaced by benefit." A comparable schedule for 1973 is contained in the brochure distributed by Commissioner Ball at the January 22 hearing ("Social Security and Supplemental Security Income Program Charts"). The 1973 replacement ratios are substantially higher than those of 1966. For example, the 1973 ratio for a retired worker with average monthly covered earnings of \$750 is 47 percent; for a comparable 1966 earnings figure of \$475 (representing about the same income rank) the ratio was 32 percent. The 1973 replacement ratios appear to be nearly half again as high as in 1966. This represents a substantial liberalization of benefits, but it does not imply a higher lifetime rate of return *per dollar contributed*, which

was the subject of my chapter. Between 1966 and 1973, the tax rate rose 40 percent, the ceiling rose 64 percent, and the maximum tax on an individual more than doubled. Participants can expect more, but they are also paying more.

I believe that the substantial rise in the replacement percentages is a constructive development. It has alleviated the jolt experienced by many when retirement income is substituted for their previous earnings stream. However, the rapid rise in taxes appears to have easily covered the liberalization of benefits. Also, as indicated in the book, my analysis relied on several simplifying assumptions such as pay-as-you-go and benefits keeping pace with earnings. The recent provisions to which you refer, such as the automatic increase in benefits and the earnings base, are generally consistent with my model. The decrease in scheduled contribution rates is probably also consistent with my pay-as-you-go assumption. As long as benefits keep pace with earnings and taxes cover benefits, my simple model describes the essence of the process which determines the yield. For all these reasons, I believe that current estimates of the lifetime rate of return on contributions (based on my original methodology) would emerge very much the same as those in my book.

There have, of course, been many desirable improvements in the benefit structure in recent years. For example, the two largest recent changes—the increase in widow's and widower's benefits, and the liberalization of the retirement test—improve the rate of return to many individuals under the program. However, since they are covered by payroll tax increases, their effects on the overall rate of return on each dollar contributed by individuals is minimal. This overall yield continues to depend on earnings and work force growth rates and the relatively stable benefit-tax relationship. Some minor changes in the internal redistributive structure have occurred, but the differentials I stressed in the book probably remain about the same today.

4. Your contention that social security taxes should be viewed independent of benefits seems to be based in part on the ground that current tax payers do not get anything currently. Aren't you overlooking the survivors' and disability insurance protection, which has both a cost and a value, that current contributors are getting? Aren't you also ignoring the fact that current contributors are relieved, to some extent at least, of providing the necessities of life for elderly parents and of financial assistance in meeting the cost of necessary health care? How can you say that current contributors are not getting current protection?

4. This is a misinterpretation of my position. I have never said or implied that "current contributors are not getting current protection," or that the commitments of the program to the individual have no current value. Indeed, I took account of the survivors' and disability components of the program in making my estimates of lifetime rates of return. My point was simply that a good expected lifetime yield on the retirement component of the tax does not justify a tax on a family in poverty. The family is in poverty now and the payroll tax intensifies its problem, whatever the actuarial value of its "protection." The same is true of the other components of the system. Although these commitments of the program to which you refer have both a cost and a current value, I do not believe that this justifies a payroll tax on families whose circumstances exempt them from the income tax.

Many types of expenditure from proceeds of the income tax *currently* benefit individuals in poverty, but I hear no call for an abolition of income tax exemptions on that ground. These exemptions are based on the ability-to-pay criterion. The case for exemption from the social security tax is even stronger. Although the commitments of the system to the individual have current value to him, they are not part of his cash flow or tangible wealth. An individual in poverty is there because his tangible income and wealth are too small, and, if he is working, the payroll tax is making matters worse.

In my book I discussed explicitly one point made in your question. The burden of the tax on the current working population may be mitigated by an associated lessening of its financial responsibility to elderly parents. To the extent that benefits are in effect "shifted" in this way to the working population, the tax burden is less than it appears. However, I believe the quantitative importance of this qualification is minimal if not nil. My more modest exemption proposals would reduce payroll tax yield only about 7 to 12 percent. This would not reduce benefits substantially and need not reduce them at all if the funds were replaced by general revenues. So I regard this parental responsibility qualification as

rather academic, since there is no need for a slash in benefits to accompany payroll tax relief. The given level of benefits could simply be financed by a different mix of taxes.

5. *When the social security program is viewed as a whole, isn't it true that the progressivity of the benefit structure, that is, benefits are weighted in favor of low-wage earners and provided for dependents and survivors, outweigh the regressiveness of the social security tax?*

5. Yes, I have stated this repeatedly in my book and in my statement. The lifetime benefit-tax structure is actually progressive. However, as I argued in my response to the last question, this still does not justify a heavy tax on low-income families. The prospective yield on their contributions does have value, but it does not alleviate their economic condition today. If their current consuming power is so low that they are exempt from the income tax, why should they not also be exempt from the payroll tax?

6. *You say that a "feasible as well as equitable income tax structure can be assigned to take over completely from the payroll tax" and that this would be "an appropriate long-term objective" (pp. 149-50). Do you think that if the benefits were financed entirely out of income taxes there would be a tendency to pay benefits only to people who could prove they were needy—that social security would be turned into essentially a public assistance program? Do you think that would be "an appropriate objective" also? What exactly did you have in mind with regard to the footnote relating to the above that implies that the taxpaying public might not automatically accept the complete substitution of income taxes for social security taxes without some change in social security benefits? And don't you think this issue deserves serious attention in evaluating the appropriateness of the stated long-term objective?*

6. My advocacy of substitution of the income tax for the payroll tax entails no corresponding changes in the benefit structure. Overall, the latter seems relatively fair and reasonable, although specific modifications are in order, especially with respect to the retirement test. I certainly believe that benefits should continue to be related to income and on a progressive basis, as at present, and I would oppose any introduction of the means test that you fear. (In fact, if I may digress briefly, I would go farther and end the retirement test which is in effect a means test, its various rationales notwithstanding. It is true that social security is said to insure against involuntary termination of work, and under that formal definition those who keep on working rule themselves out of benefits. I believe this principle is expendable and that benefits should be associated with age, as in the case of a private annuity. In other words, I believe that benefits should be based on the age at which the recipient elects them to begin, rather than employment status. Similarly, working widows should not be deprived of benefits. This would end the ludicrous contrast between the poor widow who loses her benefits because she goes to work to support her children and the rich widow who keeps her benefits as a bonus for not having to work.)

Under income tax financing, the benefit-income formula could be modified, if desired, without degeneration to a program of the public assistance type. While I favor taxation on the basis of ability to pay, I repeat that I am opposed to a means test for benefits. A change in the tax structure does not entail a means test on the benefit side. Benefits could continue to be related to the earnings experience only, as at present, or they could be related to income taxes paid in the most recent period. The latter would alleviate the potential problem to which I was referring in the footnote which you cited. If social security turned from a regressive to a progressive tax for its financing, high-income people would expect higher old-age benefits than at present. This is the exact opposite from the means test possibility. Those who need pensions the least would feel they deserve the most. The benefit structure could be revised to lean somewhat further in the direction of relating benefits to tax-paying experience, without greatly stretching out the benefit scale. I agree that this pragmatic political problem needs consideration, but I doubt that it is a major obstacle. As I indicated in my post-hearing response to Senator Fong, some of these reform possibilities have rather high break-even points and would benefit a substantial majority of the population. At the same time, the tax rates required of others seem bearable and reasonable.

7. *In seeking to explain why the Congress and the public generally have accepted increases in social security contributions while at the same time demanding that*

income taxes be reduced, you point to such factors as "conceptual ambiguities", social security taxpayer ignorance of the size of the tax, and failure to recognize regressive aspects of the tax. Wouldn't the most obvious and plausible explanation be that a universal [social insurance] system under which both benefits and wages are based on earnings and benefits are paid on the basis of an earned right to partially replace earnings lost in retirement, disability, or death is so effective and acceptable an approach to income maintenance that workers are willing to pay a flat tax on covered earnings in order to assure themselves and their families of the protection the system provides?

7. I made clear in the book that the image of the social security system as an insurance program under which one pays one's way and feels his ultimate benefits are secure is obviously a major factor accounting for acquiescence in payroll tax increases. I went further to add that the public probably correctly perceives that social security is one of our outstanding weapons against poverty. I stressed the other reasons for acquiescence in tax increases, because they are less widely understood; I also believe that a wider understanding of the tax would intensify resistance to further increases. On the other hand, I gather that criticism of the payroll tax received by legislators is already escalating fairly rapidly. I assume that this is due to wider perception of the staggering growth rate and unfairness of the tax. I expect this protest to grow in the wake of the extraordinary recent tax increases. If you accept my view that labor bears the entire tax, the one-year 1973 increase was equivalent to about 30 percent increase in the income tax of a family of four with a middle income of \$11,000; a bite of this size is not likely to go unnoticed. The fact that the public thinks social security is a good thing is not likely to prevent increased resistance to the burden and inequity of its financing.

8. *Aren't most economists much less certain than you seem to be about the incidence of the employer tax? Or at least reluctant to insist on full backward shifting? For example; the authors of "Social Security: Perspectives for Reform" state that "while the burden of the payroll tax falls on the worker in the long run, the short-run effect of imposing the tax will vary, with conditions in product and labor markets." They also say that labor unions "may succeed in inducing management to grant a larger wage increase after imposition (or increase) of the payroll tax. In such circumstances, part or all of the payroll tax may be shifted to the consumer."*

8. I am not able to produce a survey of the opinion of economists on the incidence of this tax. I can only reiterate my own observation, based on the economic literature and oral discussions, that most economists who have taken a position on the matter believe that labor bears the entire real burden of the tax. This is thought to come about through some combination of wage lag and increases in the prices that earners pay for consumer goods. Please note that I myself do not insist on "full backward shifting," as you imply. My statistical work purports only to show that in the long run the real wage rate of labor is lower by the full amount of the tax. I cannot separate the direct wage effects ("backward shifting") from price effects reducing consuming power ("forward shifting"). That is an indeterminate question, depending in part on the associate monetary policy, for example. However, I believe that the long run effect of the tax in making the real wage rate lower by the amount of the tax than it otherwise would be is of major importance, certainly more important than the wage and price adjustments by which it comes about. (The two types of adjustment do have differing effects on individuals, but control of this alternative rests with other instruments, such as monetary policy.)

My position, as expressed in the book, does not contradict the comments which you cite. In the short run, collective bargaining contracts prevent direct wage response to the tax, and the only action open to the employer is price adjustment. Since the employer tax is just as much a part of labor cost to him as the rest of labor compensation, the employer will certainly make some kind of response to a tax increase. The important thing to understand is that "forward shifting" is not necessarily fundamentally different from "backward shifting" in its effects on labor's share. If employers raise their prices enough they may be able to escape the entire impact of the tax on their real share. That is, they can recoup not only the money value of the tax but also offset the effect of these general price increases on their own consumer prices. In any case, my analysis indicates that by some combination of wage restraint and price adjustment employers do tend to recoup both halves of the tax and maintain their original real pre-tax profits.

ITEM 3.—LETTER AND STATEMENTS FROM J. DOUGLAS BROWN, PROVOST AND DEAN OF THE FACULTY, EMERITUS, PRINCETON UNIVERSITY, IN RESPONSE TO SENATOR CHURCH

FEBRUARY 6, 1973.

DEAR SENATOR CHURCH: I warmly appreciate your comments concerning my testimony before your Committee on January 23rd. I was sorry you could not be at the hearings, but fully understood the pressures you face.

The full text of my testimony is being carefully revised and will be mailed soon. Enclosed are four supplementary statements or memoranda which you requested in your letter of February 2nd. I would be glad to have these added to my testimony or used in any other appropriate way. They include states on:

1. the proposal to increase deductibles under Medicare to control usage of hospitals and doctors' services (as requested *re* the President's message);
2. the method of introducing a government contribution for Medicare (A & B combined);
3. public assistance;
4. the reduction of social insurance contributions for low-income workers.

The last memorandum goes into more detail than was possible in my short statement in the hearings.

I hope that these supplementary statements are of value in the Committee's study of a large and vital problem.

Sincerely,

J. DOUGLAS BROWN,
*Provost and Dean of the Faculty, Emeritus,
Princeton University.*

Enclosures.

SUPPLEMENTARY MEMORANDUM ON PROPOSAL TO INCREASE DEDUCTIBLES UNDER MEDICARE IN ORDER TO CONTROL USAGE OF HOSPITALS AND DOCTORS' SERVICES

The greatest hazard faced by a social insurance system is a persistent urge by well meaning people to tinker with the system without investing the time and energy to study thoroughly the complex of social, economic, psychological, and political factors which have come to delicate balance over the years during which such systems have developed. Those who think largely of benefits to the poor are inclined to discount the problems of financing. Those who consider contributory social insurance largely in budgetary, fiscal terms often have little understanding of the deep-set psychological factors which make contributory social insurance such a highly effective instrument in preventing hardship. Further, those who do not take the time to study the precise needs and reactions of beneficiaries attempt to use crude and inappropriate financial devices in the naive expectation that in some way they are solving the far larger problem of rising medical costs.

The recent proposal of the President to increase the deductible amounts and the coinsurance arrangements under Medicare is a striking and most unfortunate example of naive tinkering with a social insurance mechanism without thorough study and without faith in the judgment of many professional persons and groups who *have* made thorough studies. The main thrust of the proposal is that charging the old and the sick more for health care, the cost of health care can be reduced. The implication is that old people exaggerate their need for medical services, and should be penalized for this error.

To attempt to control *general* rising medical costs by discouraging old people from going to the doctor, and encouraging them to resist entering the hospital at a doctor's recommendation, is a heartless use of people in need to beat down a rising economic surge of costs arising from a chaotic, obsolete, and wasteful organization of health services. No evidence has been developed that old people enter or remain in hospitals excessively. It is the *doctor* who determines hospital use. Early consultation with a doctor often prevents more serious illnesses requiring hospital care. There are always many ancillary costs, psychological factors and inconveniences which discourage hospital use among the old. Where doctors charge more than Medicare allows, the additional costs can be heavy.

The President has failed to understand that the rising costs of medical care are a far bigger problem than can be met by tinkering with a complex social insurance mechanism: Part A of Medicare is financed by payroll contributions; Part B of Medicare is financed, unfortunately, one-half by premiums paid by the aged.

It is most difficult to understand why, in a budget that assigns vast billions to the Defense establishment, to space activities, and to many other large endeavors here and abroad, there is need to withdraw from the old and the sick a hundred dollars here and two hundred there when they need help most. It is true that if old people are discouraged enough against seeking health care, there will be fewer of them to help. This seems to be a heartless way to balance a budget in the 1970's.

SUPPLEMENTARY STATEMENT ON THE METHOD OF INTRODUCING A GOVERNMENT CONTRIBUTION FOR MEDICARE (A & B COMBINED)

I would recommend that the phasing in of the one-third government contribution into the financing of a merged Medicare program be spread over a period of four years. As of fiscal 1973, the share now provided by the Government for regularly insured Medicare beneficiaries approximates 13.3% (matching premiums of \$1,434 million). To raise this share to 33 $\frac{1}{3}$ % by fiscal year 1977 might involve steps to 20% for fiscal 1974, 25% for fiscal 1975, 30% for fiscal 1976, and 33 $\frac{1}{3}$ % for fiscal 1977. The amount of the government contribution in fiscal 1977 is estimated to approximate \$6,400 million against equal contributions (each) from employers and employees.

Premiums now being paid by the aged for Medicare Part B could be reduced 25% as of July 1, 1973, 50% as of July 1, 1974, 75% as of July 1, 1975, and eliminated as of July 1, 1976, from rates now in effect (\$5.80). This would approximate premium rates of \$4.35, \$2.90 and \$1.45 for the intervening years.

The government shares in dollars are estimated to be those shown in the following table:

PROPOSED GOVERNMENT CONTRIBUTIONS TO MERGED MEDICARE PROGRAM ¹

Fiscal year ending	Percent of total income	Amount of Government contribution
1973.....	13.3	1,434,000,000
1974.....	20.0	3,002,000,000
1975.....	25.0	4,155,000,000
1976.....	30.0	5,385,000,000
1977.....	33.3	6,422,000,000

¹ Contributions estimated for those matching contributions by employers, employees and self-employed. (Does not include interest, military coverage, etc.)

SUPPLEMENTARY STATEMENT ON PUBLIC ASSISTANCE

The trouble with a great deal of the debate about public assistance in recent years is that it has centered on *scales of grants* rather than on the core issue of *effective administration*. Unlike contributory social insurance, assistance grants cannot be determined by accumulated records, computers, or predetermined formula. Such grants, to be effective, must be related to current *individual* needs. This puts the focus of administration, not in Baltimore, but in every city, town and village in the country. The need is a local, personal one, but, still, the person aided is a part of the Nation's human resources.

This dichotomy between effective local administration and effective and humane sustaining of a national, human resource requires far more than formulae to solve. It requires the most able, dedicated and professional administrative organization we can develop. To be such, I am convinced, it must be a nationally integrated organization, nationally financed. At the same time, such an organization must develop national policies, guide-lines and thorough training of its personnel to insure equitable, intelligent and humane determination of *individual* needs and opportunities at each point of contact.

No one can tell in advance just what a national system of public assistance would cost since individual needs do not fall into standard predetermined scales over a vast country, city and village, with wide ranges of conditions. But I am convinced, first, that such a national system is essential to do a decent job and, further, I am convinced that it would help more people, with more beneficial results in getting them off relief, than any other system. Finally, I am convinced

that money invested in a fully qualified staff would be saved many times over compared to a poorly trained bureaucratic administration handing out "automatic" grants.

To use an analogy, a bank can hire a clerk fresh out of high school to cash checks at a window. But it uses a mature vice president to pass on loans. An assistance grant is intended not only to meet current needs, but also to help a person gain self-reliance. In the latter sense, for society, it has the attributes of a loan. It isn't a job for an untrained clerk.

SUPPLEMENTARY MEMORANDUM ON THE REDUCTION OF SOCIAL INSURANCE CONTRIBUTIONS FOR LOW-INCOME WORKERS

The objections to the reduction of contributions for low-income workers may be grouped into two categories; those related to the administrative implementation of the policy, and those related to the justification of the policy in broad social insurance terms.

I. OBJECTIONS RELATED TO ADMINISTRATIVE IMPLEMENTATION

Since the collection of social insurance contributions, especially for low-income workers, is largely a function of the employer who has no firm basis for knowing the total earnings of the worker, any downward adjustment of the worker's contributions must be made by the government on a periodic, post-audit basis. This would involve much administrative work and long delays since contributions would need be totaled over a period and related to income over a period. Earned income from covered employment would need be combined with income, or its equivalent, from other sources to fully implement the policy. It would be difficult, for example, to measure and account for income in kind, the value of the use of a home owned by the worker and earnings in public employment or from casual self-employment. In any case, the rebates on social insurance contributions would need be based on a rough measure of effective income, especially for low-income workers such as farm workers, domestic servants and intermittent self-employed persons, and would be long delayed.

If such rebates were made only on claims for reimbursement, few low-income workers would have the evidence available to support their claims. Also, many low-income workers would resist making claims for fear of involvement in income tax complications. Further, in any system of rebates related to total annual earnings and graduated in amount, few low-income workers would be able to measure their relative interest in claiming rebate because of the absence of records and the complexity of the system.

The precise break points between annual earnings for which full rebates would be made and those for which partial rebates would be made would lead to much difficulty, especially in a dynamic wage system. Should break points be related to family composition? Are the part-time earnings of a working wife or a teenage son subject to rebate? The measure of ability to pay should properly be related to family income, not individual income.

How would the rebate systems be interlocked with the payment of benefits for the old, the disabled or survivors? Would benefits be disregarded when a beneficiary earns supplementary income? Benefits are not taxable and a coordination with social security records would be necessary if such benefits were considered a factor in assigning rebates.

Would assistance payments be included in income in determining rebates?

In the case of persons with irregular employment but with good earnings when employed, it would be difficult to determine an appropriate based period for eligibility for rebates. A year would be too long to assist the poor effectively. A quarter might give undue advantage to some.

II. OBJECTIONS RELATED TO SOCIAL INSURANCE POLICY

Under social insurance mechanism, need is predetermined on a presumptive basis in respect to particular contingencies which involve loss of earnings. Individual need throughout life related to the vast complexities of economic and family conditions, in the absence of a particular, definable contingency, is best determined under the arrangements of a relief system.

The basic source of revenue for a social insurance system is the payroll tax. Procedures in the collection of the payroll tax have been greatly refined and are largely routine. The use of the mechanism of the income tax system under social insurance is supplementary, largely to cover self-employed persons. The rebates paid on claims for overpayment of payroll taxes submitted through the income tax system are a very minor element. In sum, the use of the income tax mechanism for social insurance collections does not involve a basic change in the essential operations of the income tax system as a revenue producing mechanism.

To involve the income tax mechanism in the operation of social insurance as an instrument of relating payroll taxes to the degree of need of the contributor introduces a change in function secondary to its major purpose of producing revenue. The income tax mechanism can normally adjust to need only by such indirect and arbitrary means as deductions for dependents regardless of total income. Already highly complex and dependent upon taxpayer knowledge and acceptance, the introduction of devices intended to assure proper rebate of payroll taxes to lower income workers would place a burden upon the income tax mechanism for which it is poorly suited in administrative procedures, administrative personnel, and in normal coverage of the population.

It is on the *benefit* side, not the collection side, that a social insurance system can serve on a systematic, predetermined, presumptive basis in meeting need. The graduated benefit in OASDI is a reflection of this. The lower-income worker gains by this in old age, on the onset of disability and on death with survivors. Granted, this involves a delay in effect, but in the total family pattern, generation by generation, the advantages are frequently evident.

Overall, the advantages of uniform proportionate contributions toward one's social insurance protection are of great psychological, social and political importance. They clearly differentiate benefits as a matter of right from those available only on individual proof of need. They reflect a natural desire for self reliance. They refute a criticism of dependency. They also are a factor in avoiding a class-conscious society in which some classes give and some classes get. Proportionate contributions are a force for political restraint in the evolution of a total system, both in respect to excessive demands for liberality in the benefit structure and the condoning of abuses in unwarranted payments.

In all social systems based on response, experience over long years is an important guide. In the 35 years during which the American social insurance system has developed, it is important to note almost no objection to proportionate contributions has come from working people. Rather, it has come only recently from analysts who base their argument on *a priori*, economic presumptions. It appears to them that low-income people *should* want relief from proportionate social security contributions, but the total complex of factors which determine worker response to the system has not lead to the articulation of a demand by them for the elimination of contributions. They have long learned that rights to protection are worth their price.

Appendix 2

LETTERS AND STATEMENTS FROM INDIVIDUALS AND ORGANIZATIONS

ITEM 1. LETTER FROM MERTON BERNSTEIN IN RESPONSE TO SENATOR CHURCH, DATED JANUARY 17, 1973

THE OHIO STATE UNIVERSITY,
January 17, 1973.

DEAR SENATOR CHURCH: In response to your letter dated January 8 seeking suggestions about topics meriting study in the area of Social Security.

(1) *Regressive Tax*.—I trust that many have and will respond that the regressiveness of the payroll tax is a matter of prime importance. (Enclosed is a copy of my very brief remarks on the subject at the Princeton Social Security Conference as they appear in Bowen, et al. *The American System of Social Insurance 109-110 (1968)*.)¹

Let me suggest some other important areas that are not so widely recognized as presenting problems:

(2) *Fall in Living Standards*.—Our information about the impact of retirement upon living standards is primitive. What we know is appalling. But we do not have data on how widespread is the financial demotion brought on by retirement. I believe we need more realistic "budgets" than the barebones ones conjured up by the Bureau of Labor Statistics.

(3) *Failure of Vesting in Keogh Plans*.—Theoretically private pensions fill the gap between Social Security benefits and retirees' (and their dependents') needs.

I keep hearing that the three year vesting requirement for Keogh plans is ineffectual and that dismissals are common to thwart vesting. I do not know whether this is true. But it should be investigated. If the allegations contain substantial truth the utility of Keogh plans as a supplement that operates widely and fairly would be put in doubt.

(4) *Integration Abuses*.—Since the 1941 Internal Revenue Code, tax favored plans have been permitted to "integrate" with Social Security. I believe that both methods probably favor high income earners unjustifiably. During the Johnson Administration one part of the integration formula was reduced to ameliorate this favoritism. By 1971 regulations this roll back was undone. The matter is terribly complex. Your best guide to the subject probably would be Professor Daniel Halperin of the University of Pennsylvania Law School.

(5) *The Workmen's Compensation Offset*.—This device works against a small percentage of Social Security Disability Insurance recipients—they are the neediest with large families. The offset has had a checkered history. It is a very inhumane device; no comparable deductions are made for veterans' benefits.

(6) *The Probably Unrealistic Disability Test*.—DI is available only if the applicant is so severely disabled that he (or she) has no substantial earning capacity to perform a job that exists in substantial numbers in his region of residence or nationally. The test probably is unrealistic in two respects. Severely disabled persons simply are not hired even for jobs they are capable of performing if less impaired persons are available. In addition, the job availability test does not correspond to the realistic employment potential of many applicants.

(7) *DI Benefits*.—Despite possibly greater financial needs, the totally disabled are given benefits lower than their former earnings to provide an incentive for

¹ Retained in committee files.

rehabilitation and against malingering. This rationale is applied to people who are dying and to people with absolutely no training or rehab potential. The feasibility of higher benefits to this group (most DI beneficiaries) should be explored.

(8) *Attendance Allowances.*—No provision for attendants for the totally disabled and the infirm aged is made. The British and Canadians are ahead of us on this. Serious consideration ought to be given to such assistance.

(9) *The Comparative Costs of Social Security and Private Pension Benefits.*—I'm not aware of reliable data on this subject, but it takes little imagination to surmise that the cost of private pensions benefits is dollar for dollar more expensive than Social Security. The matter bears investigation.

I will try to elaborate on these categories if you want me to do so. I may have more suggestions for you as I consider the matter further.

Your undertaking is an excellent idea and most timely.

With all good wishes,

Sincerely,

MERTON C. BERNSTEIN,
Professor of Law.

ITEM 2.—LETTER FROM LOUIS HOLLANDER IN RESPONSE TO
SENATOR CHURCH, DATED JANUARY 16, 1973

NEW YORK JOINT BOARD,
AMALGAMATED CLOTHING WORKERS OF AMERICA, AFL-CIO,
New York, N.Y., January 16, 1973.

DEAR SENATOR CHURCH: Regret that I was not able to reply sooner to your letter of January 8th, as I was busy with organization problems.

I will be glad to send you a statement regarding our position on Social Security. I believe certain changes should be made.

1. A family with children who earn no more than \$4,000 to \$5,000 a year should be exempt from taxation completely.

2. I believe that anyone who works should pay a certain percentage for Social Security with no limitation on earnings. This would reduce the payment for Social Security.

I am just pointing out one or two items but I should be glad to send you the statement on our position on the Social Security system. The limited space that newspapers give you, I could not go into details.

I regret that time doesn't permit me to attend your Committee sessions but as I said I will be glad to send you a statement, outlining our position regarding the entire Social Security System.

Sincerely yours,

LOUIS HOLLANDER,
Vice President and Manager.

ITEM 3.—ARTICLE FROM WASHINGTON POST, JANUARY 23, 1973,
BY SPENCER RICH

FIXED FEES URGED IN MEDICARE WORK

(By Spencer Rich)

To block fee-gouging by doctors, the government must set fixed fees for treatment of Medicare patients and bar physicians from charging Medicare beneficiaries anything higher, the president of the National Council of Senior Citizens told Congress yesterday.

The same principle should apply for hospital charges under the Medicare program, Nelson H. Cruikshank told the Senate Committee on Aging. He said limitations of this type are the only way to hold down burgeoning program costs.

Cruikshank, a long-time government adviser on Social Security and Medicare and head of the AFL-CIO Social Security department for many years, complained that physicians can add extra fees to the amount the government pays for Medicare.

At present, if Medicare agrees to pay, for example, \$10 for a particular medical service—after calculating that this is the “reasonable charge”—the doctor can bill the patient for \$20. The patient gets reimbursed for only \$10 by the government medical insurance program for the aged.

“Reasonable charge in practice became all that the traffic would bear,” said Cruikshank. He said doctors, government and consumers should negotiate a set price by region for each type of service and that should be the amount the doctor gets, without the right to bill the patient for added amounts. He said he didn’t believe there would be any substantial or prolonged doctor boycott of Medicare as a reaction.

Cruikshank, speaking for the 3-million-member National Council of Senior Citizens, also:

Endorsed Sen. Edward M. Kennedy’s national health insurance bill, providing a uniform system of care for all people of all ages, financed through Social Security.

Said further increases in Social Security benefits, rather than reliance on creation of a widespread private pension system, are the best way to bring the aged up to an adequate living standard. Cruikshank said the Bureau of Labor Statistics had calculated that an adequate “intermediate” budget for an elderly retired couple should be \$412 a month, and 10 million aged still had total incomes below this despite recent Social Security raises.

Recommended that, while awaiting passage of national health insurance for persons of all ages, the nation should wipe out the charity Medicaid program for the indigent aged and make all persons 65 and over eligible for Medicare health and medical insurance, eliminating deductible and coinsurance and developing ways to care for senile and crippled elderly persons. At present, such persons are covered for medical and hospital costs, but not for homemaker services, care in old-folks’ homes, meals on wheels and other services needed to combat weakness and infirmity.

Added costs of these changes, Cruikshank said, should be financed through an increase in the Social Security payroll tax and in the wage base and from Treasury contributions from general revenues.

Calling use of the Social Security mechanism “as American as a barn-raising,” Cruikshank agreed wholeheartedly with an assessment by Sen. Edmund S. Muskie (D-Maine) that the problems of aging and health care couldn’t be solved by what Muskie called “the principle of self-reliance” propounded by President Nixon.

ITEM 4.—LETTER FROM MRS. LINDA ACEVEDO, EAST HARLEM COMMITTEE ON AGING, INC., NEW YORK, N.Y. TO SENATOR CHURCH

JANUARY 22, 1973.

DEAR SENATOR CHURCH: On behalf of our committee and the elderly residents of East Harlem, I would like to express our appreciation for your diligent efforts in support of our nation’s senior citizens.

Although the 92nd Congress made some important strides in increasing benefits for the elderly, much still remains to be done.

Our organization would like to go on record in support of the following:

A minimum guaranteed annual income of \$4,776 per couple, which is based on the “intermediate” budget prepared by the Bureau of Labor Statistics for an urban retired couple.

A national health insurance plan for all people over 62 years of age which would provide total free coverage for hospitalization, doctor’s visits, prescription drugs, appliances, and homemaking service.

A rider on all subsequent bills to increase social security benefits that would permit the elderly to realize these benefits without becoming ineligible for other services (re Medicaid, food stamps, homemaking service, old age assistance).

A search for other funds to pay for additional benefits instead of penalizing and antagonizing younger working people with higher social security deductions.

Appropriations for Title VII (Nutrition bill) funding.

Again, thanks to you and members of your committee for your continued support of the aged. If we can help in any way, please feel free to call on us.

Mrs. LINDA ACEVEDO, C.S.W.,
Executive Director.

ITEM 5.—LETTER FROM JOHN R. STARK, EXECUTIVE DIRECTOR, JOINT ECONOMIC COMMITTEE, CONGRESS OF THE UNITED STATES, IN RESPONSE TO SENATOR CHURCH

JANUARY 19, 1973.

DEAR SENATOR CHURCH: I am happy to respond to your request for suggestions regarding your study of "Future Directions in Social Security." Some of our staff members attended your opening hearing on Social Security and we believe that the directions for study of the Social Security system indicated at the hearing will be informative and useful. This is an opportune time for a broad analysis of the system.

Your plans for study appear to be quite comprehensive. We believe it would be useful to have particular emphasis on matters relating to financing, benefit structure, health services and the inter-relationship of the social insurance and the new SSI program, as follows:

Financing

Actuarial assumptions, basis for recently changed actuarial estimates and effect on future financing and development of programs.

Position of the payroll tax in Government (Federal and State) financing. How regressive is the payroll tax not only as a separate tax but in conjunction with other Federal and State taxes falling on tax payers? What are the effects of the increased wage base and relationship of the wage base and payroll tax to potential benefit return to taxpayers at various wage levels?

Alternative proposals or changes to reduce regressivity, including a progressive payroll tax, limit on family social security tax liability, and general revenue financing. Does the benefit structure weighted toward low-wage earners justify sole reliance on the payroll tax for financing?

Interrelationship of Social Security and supplemental security income

SSI, financed from general revenues, will provide an income supplement to many Social Security beneficiaries and will provide the full benefit amount to persons with no Social Security coverage or other income. Will this change the concept of Social Security as basic income protection? SSI payments well above the Social Security minimum will be available to persons who have paid little or no payroll taxes. Will this raise questions as to the importance of the payroll tax and equity in imposing the tax on all workers while a large number receive SSI benefits regardless of taxes paid or wage record? Is the weighted Social Security benefit to low wage earners justified if the supplement is available to persons with low incomes?

The escalator provision for increasing benefits with increases in the cost of living applies to Social Security benefits but not to SSI benefits. This means that the larger number of individuals who receive both Social Security and SSI payments will not benefit from Social Security increases since SSI benefits will be reduced accordingly. A thorough analysis of the SSI program as it relates to Social Security would no doubt identify a number of inconsistencies which have not yet been examined. Another illustration is the difference in ages for entitlement and treatment of dependents. Workers and dependent wives can elect to receive Social Security at age 62 and widows at age 60 and many do who have difficulty in obtaining employment because of their age. However, they must wait until they reach age 65 to receive an income supplement. These differences raise questions about the role of an income supplement program in relation to Social Security which your committee could help to clarify and provide a basis for future development of both programs.

Health services

We agree with Commissioner Ball that examination of health services provisions is of major importance. Expansion of Medicare scope and coverage will place a greater burden on the payroll tax if this continues to be the sole financing de-

vice. Your Committee studies can contribute to considerations of system design for more equitable coverage than now provided by Medicare and Medicaid and to exploration of alternative methods of financing.

As you no doubt know, Congresswoman Martha Griffiths is conducting a study of all public welfare programs as Chairman of the Subcommittee on Fiscal Policy of the Joint Economic Committee. Her study is quite broad and will not devote primary attention to social insurance programs. It would no doubt be mutually advantageous for her staff and yours to discuss issues of common concern. You might want to contact Mrs. Griffiths directly or the Subcommittee's Technical Director, Alair Ane Townsend (53565).

If I can offer any further assistance I shall be glad to do so.

Sincerely yours,

JOHN R. STARK, *Executive Director.*

**ITEM 6.—LETTER AND STATEMENT FROM JOHN DOYLE ELLIOTT,
SECRETARY, THE TOWNSEND FOUNDATION, HYATTSVILLE, MD., TO
SENATOR CHURCH**

JANUARY 19, 1973.

DEAR SENATOR CHURCH: As the Secretary of the Townsend Foundation and National Lobbyist for the Townsend Plan Movement, I hereby request opportunity to testify to the Special Committee on Aging on "Future Directions in Social Security"—on behalf of State, Congressional District and local clubs, committees and other entities supporting the principles and purposes of this Plan.

I hereby submit my past testimony to the Committee on Finance, September 1970 and February 1972—not only as embodying the makings of the system we ought, justly, to have—but, also, in fact, as showing its basic provisions and principles are plainly incorporating into the constructive and progressive thinking of Congress; most emphatically manifested, I believe, in the main amendments developed in the 91st and 92nd Congresses.

Except for the dates from March 18th to April 1st, my schedule stands held open pending an appointment with your Committee.

Respectfully,

JOHN DOYLE ELLIOTT.

Enclosure.

TESTIMONY OF JOHN DOYLE ELLIOTT, SECRETARY OF THE TOWNSEND FOUNDATION

(*Summary.*—Testimony, Feb. 18, 1972, of John Doyle Elliott, Sec. Townsend Foundation, founded by the late Dr. Francis E. Townsend, to U.S. Senate Committee on Finance)

We urge swift passage of HR 1 as emergency aid to multitudes of misfortunate people—with Social Security benefit-raises retroactive to Jan. 1—all limitations, deductibles, premiums and co-insurances under Medicare A&B ended—attained age the only requirement for complete Medicare benefits—a "presumed wage in covered employment" for every person, providing a minimum, primary benefit sufficient to bar Welfare eligibility except in extreme cases. Have ALL the people under one, complete, non-discriminating plan. This Lobby, 30 years ago, urged the substantial benefits and advances in HR 1 as justly deserved, then. Now, HR 1's but a feeble turn towards what's right.

Since World War II, each Congress—now successive Sessions—have faced Soc. Sec. amendments—two White House Conferences, House-passed HR 1 and these hearings—all not because all's well with Soc. Sec., *but, because very much is very wrong.*

The special memo accompanying this testimony authentically shows the inferior, money-income position of the elderly, their very license to live, has not improved, from 1947 through 1970—despite all public and private, group and individual works, programs and policies. The truth.

However, it's gratifying that in the last three years both House and White House have reversed their formerly opposed views and, virtually point by point, adopted this Lobby's 36-year-old criticisms of misnamed Welfare. The Senate's Special Committee on Aging marks *income-lack* "more than ever" the "major problem" of retired Americans, saying only a federal plan can meet it. Now, HR 1 "sincerely flatters by imitation", adopting, after years of rejection, specific Townsend Plan features in both Social Security and Welfare reforms.

With my testimony I've filed HR 3296—the full, up-to-date application of Townsend Plan principles to the problems of social security and poverty. Only this great, national pension for ALL alike can insure prosperous instead of impoverished retirement, abolish discrimination and the mismanagement and waste of abundance.

As a living fact of life pervading our land, such real social security will take no money out of our economy, or out of the overall lives of honest people, or any honest interest—but, it effects will prosper every community in the Nation as nothing else can, solving problems which must be solved to achieve the faith, harmony and unity necessary for the world-inspiring society we ought to be.

Our people and Country have lost mightily from this unremedied problem. No other investment can so vastly benefit our people and profit our Country as its remedy. The longer we lack it, the mightier become both the irrevocable losses which the problem inflicts and the need for the profit only its remedy can provide.

All other achievements and glories must continue mocked by impoverished retirement as life's final reward for most Americans, without one thing—a great, national pension, prosperity-sharing retirement assured for ALL. My testimony provides for prompt transition of the system we ought to have—defined in HR 3296.

I suggest that the sweeping changes and reforms in HR 1 bluntly raise this question: "Who's been right and who wrong all these decades?" Revelation's afoot. I believe it counsels a new, enlightened look at HR 3296, the up-to-date Townsend Plan Bill.

If we'd had this prosperity-sharing retirement for the last 30 years, would we be a better, stronger, or inferior society compared to what we now are? Can we possibly be what we ought to be—can be—unless we do what this Bill proposes, defines and provides?

It's in the light of these questions my testimony is relevant, Mr. Chairman.

(Testimony of John Doyle Elliott, Sec. Townsend Foundation, Economic Consultant and National Pension Lobbyist, to Committee on Finance, U.S. Senate, Feb. 18, 1972)

Mr. Chairman. I urge prompt passage of HR 1 as *emergency relief to outrageously misfortunate multitudes*, with benefit increases retroactive to Jan. 1. As this testimony will reveal, none have more fault with HR 1 than I; but, the straits of people dependent on inadequate Soc. Security and misnamed Welfare, augmented by delay of this bill, defy description. Its faults, as we variously see them, ought not deny the people its good. Brutally senseless, I believe, is failure to enact now what was of debatable adequacy thirty years ago!

I hold HR 1 the most sweeping amendments yet to the Soc. Sec. Act. Each Congress—lately successive Sessions—have not found progress towards a working system; but, the need for ever broader amendments. This is NOT because all's well with Soc. Sec. *It's because very much is very wrong.* Census Bureau's Current Population Reports, Series P-60, show the authentic, unanswerable facts:

MEDIAN INCOMES

	Men				Women			
	Over 65	55 to 64	Inferiority	Percent ¹	Over 65	55 to 64	Inferiority	Percent
1947.....	\$956	\$2,344	\$1,388	145	\$551	\$962	\$411	75
1969.....	2,828	7,279	4,451	157	1,397	2,791	1,394	100
1970.....	3,076	7,678	4,602	150	1,522	2,946	1,424	94

¹ Inferiority as percent of income of those over 65. See attached special memo.

In 24 years, the income of men over 65 increased 222%—but, their inferiority to men 55 to 64 increased 232%. For women income increased 176%, their inferiority 246%. All public and private, group and individual works, policies and programs—combined—completely failed to better the aged. In the perspective of the problem's age and size, most of HR 1's advances should have been enacted 30 years ago—when, in substance, originally proposed by this Lobby. Today, they are but feeble turns towards what the aged ought to have.

Present Social Security is as inadequate and obsolete as Model-T Fords on today's roads and turnpikes. HR 1's an improvement only as was the Model-A

Ford in its turn. Americans, retired by age and various disabilities, ought to have a competently up-to-date economic vehicle. This testimony presents the structure of that ought-to-be financial vehicle of Social Security and Prosperity Insurance, Mr. Chairman.

Only one thing can wipe out that excuseless income-inferiority of the aged—their lack of the very license to live. That is a great, national pension (now about \$350 a month), equally vested in every individual at age 60, assuring prosperity-sharing retirement, even for those caught with no other resource.

That figure (\$350 a month) measures not the "cost" of a burden—but, the size of the prosperity-flaw and crushing losses which the problem of impoverished retirement inflicts. It measures the profit only that problem's full solution, prosperity-sharing retirement, can ever provide. What we can't afford is unjust poverty and its human ruin—Not the cure!

That great pension will be both anti-inflationary and anti-deflationary, amplifying living and business at up-to-date, average levels, by steering funds from both inflationary and deflationary business processes and extremes—thereby weighting the norm. How can anything better stabilize honest prosperity than that?

To the extent we lack prosperity-sharing retirement as life's final reward for all Americans, our other achievements must continue mocked by futility—our prosperity deformed and flawed, faith and harmony a shambles, inflation dissolving happiness, war to support employment and our Country's influence weakened and fading.

With the Senate repeatedly passing \$100-a-month minimum Soc. Sec. benefits and the prolonged House Study and WHCoA requests, HR 1's minimum (\$2.43 a day) is a shocking jolt. And all the more jolt beside the "special" \$150 for those "covered" for 30 years and an early \$150 minimum for adults under Public Assistance.

When we must be away from home, it costs \$2.50 a day to board our cat in a cage. If he needs a pill, it's extra. HR 1 provides cat-and-dog pensions for people! That it's better than we've had in most States, is all the more shame. How can even twice the cost for a cat be remotely tolerable for human beings?

Since 1954, to move towards the plan we ought to have, I've proposed a "presumed wage in covered employment" vested in every individual, providing a minimum benefit baring eligibility for Public Assistance and Welfare—today, about \$200 a month—all our people under the same plan—virtually wiping out Public Assistance and Welfare (but for rare cases) and most adult-dependent Soc. Sec. benefits, as well.

Whatever a uniform, national plan provides, it will cost less (especially administratively) than under degrading Welfare. I admonish cost-fearers that nothing's as costly, wasteful and cruel as destruction of people by social injustice—and nothing is as profitable as happiness and health successfully pursued.

We hold patently unjust requiring mothers with dependent children to go to work; unless they so elect. Only exceptionally gifted women can do a properly good job of being mother and housewife and the breadwinner, too! It makes familyhood a myth.

Both House and White House have reversed their formerly opposed views, virtually point by point adopting our 32-year-old criticisms of misnamed welfare and wickedly inadequate Soc. Sec. The President labeled it "blatantly unfair" and "outrageous". The House has strongly voted to replace it by a uniform, federal plan—condemning the very system THEY created and fostered all these years against our counsel. Respectfully, I believe I now justly raise the question, "Who's been right—and who wrong—throughout those three and a half decades?"

HR 1 proposes automatic Soc. Sec. benefit-raises yearly IF the Consumer Price Index rises 3%—only half the need. Advancing standards must also be matched, or the income of the aged will still lose ground. That benefits be "geared" to both advancing standards and costs has always been a primary proposal by this Lobby, from the start.

After 3½ decades rejecting it and denying the people its now admitted justice, House and White House now have reversed their stand and passed ½ of it. The change of view is commendable: but H.R. 1's provision is feeble—the Consumer Price Index but a partial, inadequate and by itself obsolete guideline. Again, validity, the question: Who's been right—who wrong—all these years?

Mr. Chairman, since 1956. I've specifically urged direct use of per capita income, the average cost of human life, cradle to grave, reflecting all changes

meticulously in BOTH living costs and standards, to update benefits—along with the “presumed wage” to end discrimination and achieve transition to real social security. Nothing so closely and simply reflects ALL changes as does per capita income.

There are no good reasons—only bad ones—for this not being done. It's not a “cost”—it's the most profitable economic and social investment possible.

There is the retirement test in HR 1, dropping the depressing \$1-benefit-loss for each \$1 earned over the set limit. At last, after 15 years rejection! Fifteen years ago, in HR 7086, 85th Congress, this Lobby proposed \$75 a month earnings (now \$150, in H.R. 3296) without benefit-loss—then, a \$1 loss for each full \$2 earned above that amount.

This new, at last fair provision of HR 1 will enable workers to ease into retirement over long periods of time—ease in and out of work suitable to their abilities and advantage. It will encourage the disabled in rehabilitation; and help child-beneficiaries ease into employment (assuming its broadened application). Help, not penalty.

However, the stingy benefits of HR 1 blunt the good effects of this fine thing, because the smaller the benefits, the faster will earnings absorb them, leaving poorer workers stripped of benefits and dependent on mean earnings. Again the question—“Who's been right—who wrong?”

Therefore, we urge suspension of the retirement test until minimum benefits at least bar eligibility for Welfare, then gradually applying it up to full force when they equal the prevailing federal minimum wage, updated in step with per capita income. Then we'll be walking the road to justice and to the faith and unity otherwise impossible—but necessary for the inspiring society we ought, by every right, to be.

HR 1 unconscionably proposes to raise the contributions-base in step with the average wage in “covered employment”. The average “covered” wage better reflects both costs and standards—but, to apply it to taxes but not to benefits is defenseless. Can such discrimination conceivably pass House, Senate and White House? Inconceivable!

It's wicked discrimination to raise the contributions-base to obligate the public purse to match retirement savings for the well-to-do, the fortunate, those best able to finance themselves. Remember, we don't have the problem because of the prospering and well-employed. We have it because of the MISFORTUNED! HR 1 is upside down—devilishly “regressive”—rich benefits for the successful—mean benefits for the poor.

How wrong can you get? How survive, deceptively compounding injustice by evils falsely presented as remedies for grievous wrongs—like this provision of HR 1?

All the criticisms so falsely lodged against prosperity-sharing retirement are fully valid against this one! To match richly retirement contributions of the fortunate, the well-to-do and rich who have the least right to a penny! How wrong can you get?

This Lobby believes two systems classifying certain Americans as inherently insured, others as indigent, are wrong. We must have ONE, prosperity-sharing insurance plan for ALL ALIKE, barring the need for Welfare and Public Assistance (except in rare cases). Abolish discrimination the only way possible—by the great pension for all.

HR 3296—the Pay-As-You-Go Social Security and Prosperity Insurance Act—The Townsend Plan Bill—defines, provides and presents exactly that system. It creates a prosperity-floor—not a poverty-ceiling—below which we will not allow retirement living because of money-income lack—because of lack of the very license to live.

Only this great pension could in the past, or can in the future fill the punishing income-gap authentically documented at the outset of this testimony. Continuing such unjust, defenseless human poverty foredooms the economic, social and political progress this society ought to achieve, but isn't. There is no substitute to wipe out this not less than \$125 billion a year prosperity-loss. Only this great pension.

Without prosperity-sharing retirement as the right of ALL under the same plan, instead of paupered retirement for multitudes, the disintegrating injustices causing our Country's rending divisions will remain—mounting. It's the prime requirement.

Oh—there's nothing wrong with other countries advancing—but, there's very much wrong with us slowing down, losing our leading pace because of excuseless

injustice in our own house, mismanagement of abundance under the obsolete, prejudice-ridden rules of scarcity—nowhere so emphatic as among our retired elderly and disabled.

We completely disagree with HR 1's increased Medicare limitations. It's past time for complete Medicare. By the single requirement of attained age 60, it should cover ALL because too many ruinously costly illnesses, in the face of fading income, strike before age 65. ALL under the same plan.

Eliminate from Medicare A & B all limitations, deductibles, premiums and co-insurances. Cover all prescribed medicines, extended care, eye, ear, nose, feet—everything prescribable for health treatment. No bills to patients. The aged sick can't competently go to court about charges etc.; the Government can—and it can fairly set fair charges and see that they are paid and patients not plagued. It can only be done under complete Medicare; and it ought to be.

Medicare should cover the disabled and all other Soc. Sec. beneficiaries, because they are under the same financial dependency as the elderly.

Formidable demand is rising for universal and complete health insurance, cradle to grave. If the medical profession, the health and insurance industries and science cannot do the job and universal health insurance comes—there can be no better preparedness for it than complete Medicare in experienced operation.

Contrary to the prejudiced and obsolete thinking of many, the Government won't do the work, but will vest in the people the insurance which alone can finance the relevant professions, industry and science to do it. Only complete Medicare can win us the priceless profit possible only if the financial problem's fully solved.

Mr. Chairman, as a member of the Task Force on Income of the White House Conference on Aging—and the Maryland Conferences—I was exceedingly gratified when, after extensive discussion, each and all of the Task Forces independently reached the above conclusions and recommended accordingly on Medicare.

Most equitably to finance the above defined, complete solution of the Soc. Sec. and poverty problems, Sections 214 & 229 of the first section of HR 3296 present the Gross Income (gross receipts) Tax. The gross receipts of all persons and companies is the broadest possible tax-base, for the lowest possible tax-rate. It will provide benefits for the poor more meaningful in reverse proportion to their fortunes and contributions. To the fortunate and rich—who by definition and fortune have secured freedom from the problems—the exact same benefits will accrue; but, they will be less meaningful as their fortunes and contributions are the higher (ability to pay). Just what "progressive" solution requires.

To the general population it will insure an incomparably sure investment in prosperity-sharing retirement, their contributions buying benefits "geared" to increase directly in step with advancing costs and standards. A better, or as sure an investment will defy imagination.

The Gross Income Tax will automatically amplify revenue to match advancing production, business-volume, costs, prices and standards—all—tremendously helping to keep benefits up to date. Just how can you get any more equitable than that?

Further, this tax will automatically rescue funds from both deflating and inflating business activities and pump them into prevailing, normal standards and levels of business and living—reflating the deflated and deflating the inflated.

How can you get more stabilizing, equitable and prosperity-sharing than that?

HR 3296 provides automatic transition from our present, futile systems to this great, national pension by starting with benefits sufficient to bar eligibility for most Public Assistance and Welfare, increasing them every three months until all eligibility for Welfare and benefits under present Soc. Sec. has been absorbed and the great prosperity-sharing, national pension is established as the inherent right of every American.

Alternatively, if Congress advances the present system through the "presumed wage" I've advocated, to establish minimum benefits at least precluding eligibility for Public Assistance and Welfare—getting all our people under one, non-discriminating plan—then advancing the benefit to the adequacy necessary for the prosperity-sharing retirement envisioned in HR 3296—under that approach, this GI Tax should be used instead of any further tax-rate hikes and contributions-base increases under the present tax-system. They are both already intolerably burdensome—regressive.

Now, we've been told incessantly in recent years, in effect, that we do possess the technological means for production to end poverty—but, in the same breath,

we've been informed that we have no "financial mechanism" so to distribute our produced abundance for such human well-being and freedom. That's not true.

This Gross Income Tax, used as herein prescribed, is exactly that "financial mechanism". That last ditch, defenseless excuse is groundless. In point of fact, it's been groundless since this Lobby first presented this tax so to be used, in 1937.

Conclusion.—With that "financial mechanism" in mind, I make this observation: If a contract is economically and otherwise valid between employers and employes of particular industries—like auto', steel etc.—providing prosperity-sharing retirement for those who've served 30 years in those jobs (proportionately less for shorter terms)—then, there's nothing wrong and everything right with a universal contract to do exactly the same thing for all the people, all the time, equally, covering all industries, all business and all occupations perpetually.

Indeed, if a thing's wrong with such a universal contract, then it's at least as wrong with any and all of these special contracts for special groups, in special occupations, prosperously employed—namely, discrimination.

This "financial mechanism"—the GIT of HR 3296—does exactly that—covers all business and industry, all occupations, all the people all the time providing exactly those prosperity-sharing retirements, permanently. Fully solving the problem.

The great, national pension—universal contract—will be a people-spending, not a government-spending program not taking a nickel out of our economy, or out of any honest lives, or interests. It will all be money right down in the communities, everywhere, prosperously functioning; where, now, in tragic measure, it isn't. Where its lack, now, constitutes the costly, ruining problem.

There's no good reason for retirement-living being in any respect financially inferior to that in any other period of life, at any time. Here's the plan, "contract", and "financial mechanism", the ways and means for prospering it.

I respectfully suggest Mr. Chairman, this Lobby's right about this, too.

Every argument used to prevent prosperous retirement agreements, decent pensions for the misfortuned and the people in general—falsely used—is completely valid against lavish pensions for the well-to-do and rich, in both public and private life, from the top down. Their extravagant pensions come, directly and indirectly, from prices and/or taxes, from the public purse—for those fortune's supplied every means for financing their own retirement. Who doesn't know endless examples of this shameless pension grabbing by the richly paid, unanswerably undeserving? Shameless and wicked.

SPECIAL MEMORANDUM—MAY 1971—FACTS ABOUT THE INCOME INFERIORITY OF THE AGED
MEDIAN INCOMES

	Men				Women			
	Over 65	55 to 64	Inferiority	Percent ¹	Over 65	55 to 64	Inferiority	Percent ¹
1947.....	\$956	\$2,344	\$1,388	145	\$551	\$962	\$411	75
1948.....	998	2,412	1,414	142	589	857	268	46
1949.....	1,016	2,366	1,350	133	516	1,000	484	94
1950.....	986	2,494	1,508	153	531	918	387	73
1951.....	1,008	2,840	1,832	182	536	968	432	81
1952.....	1,247	3,009	1,762	141	654	1,175	521	80
1953.....	1,150	3,271	2,121	184	659	1,170	511	78
1954.....	1,268	3,195	1,927	152	694	1,195	501	72
1955.....	1,337	3,440	2,103	157	700	1,257	557	80
1956.....	1,421	3,567	2,146	151	738	1,364	626	85
1957.....	1,421	3,681	2,260	158	741	1,342	601	81
1958.....	1,488	3,968	2,480	167	776	1,326	550	71
1959.....	1,576	4,190	2,614	166	797	1,431	634	80
1960.....	1,698	4,289	2,591	153	821	1,415	594	72
1961.....	1,758	4,597	2,839	161	854	1,480	626	73
1962.....	1,910	4,800	2,890	151	920	1,669	749	81
1963.....	1,993	4,901	2,908	146	920	1,774	854	93
1964.....	2,037	4,941	2,904	143	952	1,910	958	101
1965.....	2,116	5,250	3,134	148	984	2,019	1,035	105
1966.....	2,162	5,750	3,588	166	1,085	2,214	1,129	104
1967.....	2,304	6,122	3,818	166	1,123	2,352	1,229	109
1968.....	2,652	6,717	4,065	153	1,311	2,576	1,265	96
1969.....	2,828	7,279	4,451	157	1,397	2,791	1,394	100
1970.....	3,076	7,678	4,602	150	1,522	2,946	1,424	94

¹ Inferiority as percent of income of those over 65.

Source: Census Bureau, Current Population Reports, series P-60, annual tables on money-income distribution by age and sex, 1947 through 1970.

The income-status of the elderly has not improved—netting, if anything, a slight loss. What's more—a few, in certain groups like auto workers, for example, won contracts for prosperous retirement. Since the aged generally didn't gain, the gains by these special groups mean that most of the aged lost all the more.

In that light study the above, authentic facts. See that all our programs and policies, public and private combined, have outrageously failed the aged—that only our Bill's great pension can ever provide them the lacking money-income, the very license to live on up-to-date, just standards—the problem's only solution.

It's far past high time we had prosperous, not impoverished retirement, a contract covering all business and all the people all the time—more valid than contracts in the auto and other industries for a special few. H.R. 3296 is that universal contract covering ALL all the time in every business and occupation. There's no other.

The authentic facts put the burden of proof squarely on those who still insist on trying to make the unworkable, old system work. You'll find every reason they give is a bad one. There isn't and there's never been any good reason for living standards in retirement being impoverished, or in any way inferior to other periods of life.

ITEM 7.—“A BILL OF RIGHTS FOR OLDER AMERICANS: THE FUTURE OF SOCIAL SECURITY”

(A Report by Frank Rodio, Jr., Hammonton, N.J.)

Mr. Chairman and distinguished Members of the United States Senate Special Committee on Aging:

Who are the older Americans? There are 20 million older Americans past age 65. The purpose of these hearings should be to adopt “a bill of rights for older Americans.” The United States Social Security program celebrated its 36th birthday on January 11, 1973. This Social Security legislation has not always acted as its originators intended. This legislation was supposed to provide “senior citizens” with a decent financial security program and benefits for their “old age.” Instead of providing an adequate financial security base for their “old age” social security has proven to be mixed blessings for many “senior citizens.”

These “senior citizens” after a lifetime of hard work are in many cases “put out to pasture” by being placed in convalescent homes against their will. Thus, a very valuable natural resource, “senior citizens,” with all their varied talents, is being wasted. A word about these convalescent homes. A recent study of these convalescent homes by former Arkansas Congressman David Pryor revealed the very sorry state to which these final resting places of many “senior citizens” has deteriorated. Look at these statistics. The U.S.A. has 11,484 homes with 704,217 beds, 634,747 residents, and 365,065 personnel. Very often these convalescent homes do not even meet minimum state requirements.

A fundamental point of my proposed “bill of rights for older Americans” would be to set federal health and safety standards for these convalescent homes and to set federal standards for these convalescent home personnel similar to the standards required for personnel of United States military and Veterans Administration hospitals. “Senior citizens” deserve something better than this during their stay in their “final resting places” before death arrives. The Social Security Administration has 637 district offices, 211 branches and 98 metropolitan branch offices. President Richard Nixon signed into law on July 1, 1972 and October 30, 1972, the 1972 Amendments to the Social Security Act. The October 30, 1972 legislation liberalized monthly cash benefits, made changes in Medicare provisions that broadened protection and coverage of services, changed the contribution schedule established by the earlier July 1, 1972 legislation and established a new federal income security program for the needy, blind and disabled.

The July 1, 1972 legislation provided several new and revolutionary provisions in Social Security law. Effective September, 1972, a 20% increase in all monthly cash benefits, and more important for the future, automatic “cost of living” increases that will be related to the consumer price index. The “cost-of-living” increase provision should have been adopted a decade ago. The economic “cancer” known as inflation hits hardest at the “senior citizens” and persons who live on fixed incomes. Congress and the President finally recognized that “senior citi-

zens" deserve economic justice. "Senior citizens" should not be looked upon as second-class citizens.

The July 1, 1972 legislation established a new contribution schedule with the maximum amount of earnings taxable and creditable for benefit purposes was raised to \$10,800 for 1973 and \$12,000 for 1974. A system for automatic adjustment in the future maximum earnings base was also established.

Medicare—hospital insurance for the aged—enters its seventh year of operation in July, 1973. Hospital insurance had about \$6.1 billion withdrawn from the hospital insurance trust fund for the period July, 1971—June, 1972. 20,900,000 persons were enrolled at the beginning of December, 1970. From July, 1971 through May, 1972 6,100,000 claims were approved, covered days of care per in-patient hospital care averaged 11.8 days. Average amount reimbursed for these claims was \$820. I feel my proposed "bill of rights for older Americans" should provide for compulsory coverage for all Americans reaching age 60. "Senior citizens" should not be made to suffer needlessly because they cannot afford to pay expensive medical bills.

The medical insurance provisions state aged persons can receive benefits under this supplementary program only if they sign up for them and agree to pay a monthly premium (\$5.80 from July 1, 1972 to June 30, 1973.) Benefit payments under the medical insurance program from July, 1971 through June, 1972 totaled \$2.3 billion. Retired and disabled workers and their families and the survivors of deceased workers received \$38.6 billion in social security cash benefits in the 12 months ended June, 1972. This should be compulsory also.

Old Age survivors and disability insurance is paid for by a tax on earnings shared equally by the employer and the employed worker (1973 figure up to \$10,800.) Another factor in my projected "bill of rights for older Americans" would include realistic tax relief for "senior citizens."

I do not feel "senior citizens" should pay property and school taxes. Social Security started as a modest retirement income plan and has sprouted into a giant pension and insurance network collecting taxes from 96 million workers. A "tax revolt" has begun to spread among young workers which threatens Social Security. Young workers do not seem to realize they are also paying for their own "old age." A major problem facing Social Security is the fact that Congress continuously raises Social Security benefits without taking into account the effect these raises will have upon the cash reserves on hand in the Social Security Trust Fund.

1965 was the last year income exceeded expenditures. If this situation continues, the Social Security System is in danger of becoming bankrupt. The debate in Congress over a national health insurance program has revealed that costs for such a program are projected at \$81 billion annually. A word about national health insurance. I support President Richard Nixon's national health insurance program. I am opposed "from the cradle to the grave" formula as is practiced in Scandinavia, the United Kingdom and Uruguay. In fact, Uruguay is near bankruptcy. The U.S.A. cannot afford such a program.

Any alternative national health insurance program other than President Richard Nixon's will, in my opinion, place a severe drain upon the already depleted cash reserves of the several Social Security Trust Funds. There is a national trend toward early retirement. This is another danger to Social Security. I feel management should drop mandatory retirement ages so people can work as long as they are able. There should also be no earnings limitation. In many cases, people who work hard all their life retire and do not know what to do with so much free time. Death soon cuts short their forced retirement. This should not be the case. Finally, the recommendations of the 1971 White House Conference on Aging should be fully enacted upon. It is about time "senior citizens" had their own "bill of rights."

ITEM 8.—LETTER FROM MRS. R. E. BOHRER, TO CONGRESSMAN FRANK HORTON, JANUARY 26, 1973

ROCHESTER, N.Y., *January 26, 1973.*

DEAR CONGRESSMAN FRANK HORTON: Received your letter in answer to my phone call regarding future trips to Washington D.C. to explain to all members of the elected house what we, who have worked as husband and wife and as

widow and widower, expect from our social security fund. Since we both paid on social security for as widows and widowers we're both being discriminated from our spouse's share of social security. The only ones that are benefitting are the widows and the widowers that never paid on our Social Security fund. I get calls throughout the year from working women and their husbands regarding our Social Security program.

As you know when I get your letters I read them to the members. They want to know what you are doing to help us widows and widowers to accomplish that goal in sharing our spouses social security. You should know Congressman Horton by now how hard it is to attain a goal. You had the same experience in fighting for your leadership in Congress and we're all glad that you won. Won't you please help us now? A great many of us are still working and since we retired widows and widowers both paid on social security we feel that we should be entitled also to our spouses share as a survivor from our social security fund, and widows and widowers that have not yet retired want to make sure that they have something to fall back when they are ready to retire. I'm afraid your office misunderstood me on that phone call I made to your office, I read an article in the newspaper regarding the Hon. Senator Frank Church, Chairman of the Senate Special Committee for social security is holding hearings on how to improve social security for the aging and they're open for suggestions and we want to be the ones to make them. What do university people or students know about our problems? We want to be heard on the hearings that are being held throughout this coming year, and you can help us to be heard as our Congressman. You should know by now how much we depend on you to help us to win our goal. Why should we be forced on welfare when we have money coming from our spouses social security fund while someone else that never worked a day is living on the fat of our sweat? Some of us want to attend, retiree's who both pay and also as workers who are still paying on social security.

Sincerely,

Mrs. R. E. BOHRER.

**ITEM 9.—LETTER FROM JEROME E. LEON, COUNSELOR AT LAW, TO
SENATOR FRANK CHURCH, CHAIRMAN, DATED JANUARY 30, 1973**

NEW YORK, N.Y., *January 30, 1973.*

MY DEAR SENATOR CHURCH: You recently received some newspaper publicity on contemplated procedure on Social Security Taxes. I have a thought with respect thereto which has been on my mind for sometime but I have never found anyone who is willing to do anything about it. Perhaps, you are the very individual I am looking for.

I believe that individuals over the age of 65 years who are gainfully employed or gainfully self employed should not be required to make any further contributions to Social Security. As a self employed individual this tax costs me in excess of \$500.00 a year now, and it keeps going up.

People who so work or are employed do the fund a favor in that if they retired the fund would have to pay them social security benefits. By working, they save the fund this money. However, under present conditions they not only save the fund this money but they are penalized as well, in that, they are required to make contributions thereto on their earnings.

I have taken this up with various individual's, the last of whom was my Congressman, the Hon. Ogden Reid. Mr. Reid had someone from the Social Security Administration contact me, who explained my benefits increase by each further contribution I make. It so happened that just about that time, I received a letter from Social Security advising me my benefits increased by \$10.00 a month. I told this individual you keep your \$10.00 per month and let me keep my \$500.00 or more per year. He stated only an act of Congress could accomplish this.

Can I interest you in this cause to assist the aging who under the circumstances I have related, surely require help? I shall be happy to appear before your Committee if you see fit to proceed in this matter.

Also, I am sending a copy of this letter to my State Senators as well as the Hon. Ogden Reid.

Sincerely,

JEROME E. LEON.

ITEM 10.—LETTER FROM ARTHUR L. SPARKS, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

WASHINGTON, D.C., *January 22, 1973.*

DEAR SENATOR CHURCH: On behalf of the membership of the National Association of Retired Federal Employees, I should like to commend and thank you for the early action you have taken in the Special Committee on Aging in studying "Future Directions in Social Security".

NARFE is interested in securing a beneficial Social Security System on a long range basis, but due to the fact that many of our NARFE members do not qualify for Social Security benefits and thus full Medicare coverage, we are particularly interested in securing greater Medicare coverage for all Civil Service retirees.

We are looking forward to cooperating with you and the Committee in the 93rd Congress. Our Vice President, Clarence Tarr, who is a member of the Aging Advisory Council will represent NARFE before your Committee, and will be happy to do what he can to assist and cooperate.

Thank you for your continued interest in the problems of the aged and aging.

Sincerely,

ARTHUR L. SPARKS, *President.*

ITEM 11.—LETTER FROM JAMES L. THOMAS, POST FALLS, IDAHO, TO SENATOR FRANK CHURCH, CHAIRMAN

ABOUT SOCIAL SECURITY

To whom it may concern:

You are required under the law to place or have taken out of your wages a percentage of them to be matched by your employers or in case of self employment a percentage of your earnings into a social security fund which is supposed to be available for your use if you become disabled or old enough to retire at 62 or 65 of age.

I think an individual should be given his choice to do this or put the amount of money so used into an insurance of his choice whereby he wouldn't have so much red tape to go thru in order to get some of his money back when he is unable to work at a decent paying job.

Just what is meant by substantial gainful work according to social security definition? My equilibrium is poor!! I am not lazy, but I can't see trying to work and suffering dizziness and awkwardness from the use of my glasses which make me dizzy when I wear them to read or write very long at a time. This condition is due to head injuries and leg and right shoulder injuries received in an automobile accident on June 26, 1972 in the first hour after midnight.

I have paid into Social Security since right after I was discharged honorably from the naval service, November 25, 1945. I believe I should be qualified to receive some consideration from Social Security and the U.S. Government.

The reason for this letter is my being turned down on disability benefits by Social Security.

From a disappointed, peeved, but still loyal citizen of the State of Idaho of the U.S.A. SS No. 529-34-0578 James L. Thomas, 660-37-37EXUSNR.

P.S. If you wish I would like you to pass this on the Congressional records to show as an individual how I feel about excess red tape in operating a department which was set up to help an individual when he or she needs it. I am also unable to do any stooping over, turn my head abruptly or look up for any length of time without getting dizzy and my right arm is awkward to lift with or reach out or behind me, like into my back pocket.