

**Comments by**  
**HERBERT HOOVER**

**on**

**PROPOSED SOCIAL SECURITY**  
**LEGISLATION**

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**Letter to the**

**HONORABLE ROBERT L. DOUGHTON,**  
**CHAIRMAN, WAYS AND MEANS COMMITTEE**

**APRIL 25, 1949**

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*for editorial information*

New York City  
April 25, 1949

THE HONORABLE ROBERT L. DOUGHTON  
Chairman of the Ways and Means Committee  
House of Representatives  
Washington, D. C.

Dear Mr. Congressman:

I beg to acknowledge your request that I make some comment on H. R. 2893 and H. R. 2892 which relate to revision and expansion of Federal Old-Age and Survivors' Insurance and the Federal-State public assistance programs.

The following notes relating to the systems existing at present are based upon data collected by the Commission on Organization of the Executive Branch. That Commission did not deal with policy questions to be determined by Congress. The views on policy expressed herein, therefore, are solely my own.

I wish to say at once that I strongly favor governmental provision for protection of the aged and their dependents.

The problem before the nation is to obtain a workable system, with a minimum of administrative cost, a minimum of bureaucracy, adjusted to the economic strength of the country which gives an assurance of security to this group. In my view, we have not yet found that system.

I should like to make two general observations:

1. There is an illusion about the whole Federal Old-Age and Survivors' Insurance. Because the taxes on payrolls are paid into a trust fund and paid out without appropriation by Congress, there is an idea that these are neither taxes nor Federal expenditures. They are both. They are just as much a burden upon our national economy as any other tax or any other Government expenditure. Also, payroll taxes, however justifiable, are, like all other taxes, a burden on the standard of living of the whole nation. A considerable part of the payroll taxes paid by employers in the long run is passed to the people as a whole in prices, and a considerable part of the taxes paid by wage earners is passed on by demands for increased wages.

2. There are many desirable things that every American home would like to have, but its income compels it to deny itself, at least temporarily. It is similar with the nation.

Since this legislation was originally passed in 1935, we have increased the total burden of Federal expenditures from about \$9.7 billions a year to a prospective \$45 billions a year, included in which are about \$23 billions for defense and European aid—most of which constitutes the cost of the cold war.

Already our economy is up to the limit of endurance under this load. I believe we should go slow and hold further additions to this burden to the absolute minimum. When the cold war is over, we can afford many more domestic improvements.

I can find no satisfactory estimates of the cost of these two proposals if enacted into law. There would be, however, a huge increase in the tax burden on our economy from this legislation. I make some tentative estimates later on.

### THE PRESENT SYSTEM

1. The old-age problem has been thrust upon the Federal Government largely by the great increase in longevity. Its dimensions are indicated by the fact that there will be by 1950 about 11,000,000 persons over 65 years of age. They will increase in numbers absolutely and relatively, both with the increase in population and with the constantly advancing protections to health.

2. The nation today is undertaking to solve the problem from three different directions:

First is the joint Federal-State assistance to which I shall refer as "State Systems". Forty-eight of the States and three other jurisdictions, with Federal aid, give old-age assistance, dependency, children's benefits, and other social services, based upon individual needs. The variations in the "needs" requirement are considerable, and in a few States are so liberally interpreted as to be practically universal old-age pensions. The total number of persons given assistance by the "State Systems" is about 2,300,000.

The average amount of payments to the aged in need in all 48 States is \$42.02 per month per person. In the 46 most typical States based on need, the average payment is about \$39.50 per month per person. These monthly payments vary greatly among the States—ranging from a low of

about \$20.00 to a high of about \$78.00 a month in one State. The annual cost averages about \$1,200,000,000—about one-half of which is paid by the States and about one-half by the Federal Government.

Second is the Federal Old-Age and Survivors' Insurance, based upon payroll taxes, to which I shall refer as the "Federal Insurance System". Benefits are now being paid out to about 2,260,000 persons at an annual cost of about \$556,000,000, and averaging about \$25.00 per person per month, including their dependents. The payments being insufficient for the needy, many must be supplemented by the "State Systems".

Third is a multitude of old-age pension and retirement systems in the country to which I shall refer as the "Independent Systems". They are in the main Federal veteran and military pensions and disability systems of this group which extend into the 65-year age group; Federal Civil Service retirement systems; the Railroad Retirement System; the old-age or retirement systems of the States and local governments; the old-age or retirement systems of universities, hospitals, fraternal organizations and other benevolent institutions, insurance companies, businesses and industries. There is now a new form of old-age and retirement system emerging in particular industries as the result of collective bargaining. These systems, together with pensions to veterans, bid fair to be further extended.

The number of persons now receiving pensions or aid from these "independent" services is estimated at about 2,300,000. The monthly payments under these systems are much higher, on the average, than the other two systems.

Theoretically, there are about 7,000,000 persons now receiving benefits from all three systems. This, however, includes dependents less than 65 years old and there are duplications because in many cases the benefits from the "Federal Insurance System" are inadequate and must be supplemented by the "State Systems".

### FAULTS IN THE PRESENT "FEDERAL INSURANCE SYSTEM"

3. There are serious faults in the "Federal Insurance System".

a. The original concepts, as embodied in the Social Security Act of 1935, were that the money

to pay for the benefits would come from employees and employers by a tax on payrolls, and that the system would be self-sustaining. The original actuarial basis of the system was faulty and was made worse by the legislation of 1939.

One of the methods of this system contemplated building up a reserve fund in the early years to compensate the subsequent increased benefits. The monies collected from the payrolls have been, and are at present, in excess of the payments to beneficiaries, and the trust fund of about \$10 billion has been accumulated and invested in Government bonds. The growth of expenditures for benefits under the present act apparently will exhaust this reserve in from 5 to 10 years, and the general taxpayer will be forced to make up the annual deficit. This deficit, it is estimated, will rise ultimately to about \$1.7 billion per annum.

b. An additional burden, however, is thrust on the general taxpayer. Under the present system the Federal Government has used the surplus income of the trust fund (amounting to the \$10 billion) for its current expenses and placed its IOU (in the shape of Government bonds) in the trust fund for the money thus used. It is estimated that the benefits paid out will begin to exceed the receipts (upon the present basis of the payroll tax and benefits) in a few years. When this occurs, the Government must redeem its IOUs from the trust fund. The money to redeem them must come from the general taxpayer. Even if the bonds were sold to the public, ultimately they must be redeemed by the taxpayer. As those who have already paid the payroll deductions are also taxpayers, they will, to some extent, be paying for their insurance twice over.

I cannot agree with the economic arguments before your Committee which are to the contrary. The simple fact is that the money has been raised by a tax, and, except for benefits already paid, has been used as current expenditures by the Government, and must be replaced from somewhere—the taxpayer.

#### THE PROPOSED NEW LEGISLATION

4. I do not have the technical staff to analyze in detail the effect of the amendments to previous legislation implied in these two bills (H. R. 2893 and 2892). However, I make some overall obser-

vations which may be worthy of consideration by your Committee.

a. I suggest that the Committee consider abandoning the whole reserve fund concept and that the "Federal Insurance System" be put on a pay-as-you-go basis. It should be no more difficult to calculate for a year ahead the amount of payroll taxes required to meet the outgo than any other taxes. The present reserve fund of \$10 billion could remain as a balance wheel. It could be drawn upon temporarily when advance calculations of the tax prove inadequate and then could be restored the following year. This procedure would enable the Congress to fix the tax as needed and to appropriate the budget annually. In the latter matter, it has no voice at all at present. Such a method of pay-and-collect-as-you-go would avoid the faults pointed out in the paragraphs 3 a and b (above).

I am aware it will be contended that this course would deprive the scheme of its purported actuarial basis. As a matter of fact, it has been abandoned under the present system. But more important, the basic fault of double payment by beneficiaries (3 b above) destroys all such actuarial contentions anyway. And the same situation will apply to the new legislation as it again proposes to increase reserves, and spend the increased money for current expenses of the Government, with ultimate replacement by the taxpayer.

b. To visualize what the plans under H. R. 2893 and 2892 mean, it is necessary to reduce them to some sort of figures. It is proposed in H. R. 2893 ("Federal Insurance System") to increase the taxes on payrolls, which now amount to about \$1,700,000,000 per annum, to about \$4,800,000,000. Obviously, this is an increase in tax burdens by about \$3,100,000,000 per annum at once.

As I have said, I can find no adequate estimates of the annual expenditures under these two bills. Some estimates of the costs of adopting H. R. 2893 ("Federal Insurance System") are given, but apparently they do not include all of the features in the bill. I have found no estimates of the cost of the additional grants-in-aid to the "State Systems" under H. R. 2892, or of the other direct expenditures implied in that bill. They are, apparently, large.

The estimated "Federal Insurance System" expenditures under H. R. 2893 alone are:

(Present expenditures \$ 556,000,000)	
1950	1,750,000,000
1955	3,400,000,000
1960	5,900,000,000

(These figures as to H. R. 2893 are about half-way between the "high" and "low" estimates furnished to the Committee)

The very large increase in Federal expenditures is obvious. Moreover, it is also obvious that the reserve fund, in the next ten years, would be greatly increased. This surplus of payroll taxes over the benefits paid out again is to be represented by more bonds and used for current expenses—and ultimately the general taxpayer will pay a large part of the bill.

As a method of increasing Government revenues, it is a tax on the lowest incomes in the country—provided they do not secure an increase in wages to compensate. In such case, however, it falls on the consumer, of which these beneficiaries are the largest group.

The answer to all these dilemmas is to abandon further building of the reserve fund and to put the whole business on a collect-and-pay-as-you-go basis. If my proposal were adopted, even the present payroll tax burden could be reduced during the next critical years.

c. Aside from the faults inherent in the "Federal Insurance System", the ultimate result of this new legislation will be to absorb or extinguish much of the "Independent Systems". The "Independent Systems" should be maintained and encouraged. They represent a flowering of American freedom and of moral growth. They have more efficient administration and usually provide greater benefits to their members than do either the "Federal Insurance System" or "State Systems". In the few instances where, by a change of jobs, a small number of beneficiaries under the "Independent Systems" might lose all or part of their rights under these systems, they can be picked up by the "State Systems".

d. Another point worth noting is that the powers vested in the Federal Administrator under these two bills could go a long way to extinguish the independence of the States in welfare activities. This can also result in an enormous increase

in the number of State, Federal and other public officials necessary for administration. There are probably 30,000 State and Federal officials already engaged in administration even now.

## A COURSE OF ACTION

5. My own opinion, having regard for our obligations to prevent suffering by the aged and their dependents due to the increased cost of living, together with the difficult economic situation we face from the cold war, is that we should go slowly and proceed as follows:

a. The further expansion of reserve funds should be abandoned, and the system should be placed on a pay-as-you-go basis.

b. Increase the benefits of the "Federal Insurance System" but, for the present, undertake none of the other expansions proposed in H. R. 2893 and thus greatly reduce the expenditures required.

c. Develop the "State Systems" based on need by further Federal grants to provide more adequately for the aged and dependents actually in need (the average now being only \$42.02 per person per month, with some States as low as about \$20.00 per month), and to enact none of the expansions in H. R. 2892.

The real and urgent problem is the need group. It is not solved now, nor can it be solved for many years, by the "Federal Insurance System"—even if that system can be made to work efficiently.

Whatever increased cost may be thus required in taking care of our needy and aged, it could be covered many times over by adopting the recommendations for better organization of the executive branch proposed by the Commission.

## SEARCH FOR A SIMPLER SYSTEM

6. The Committee, in my opinion, should undertake to establish an independent research body to provide analyses of other possible systems. It should be given a year for study.

The reasons are:

a. On the organizational side, both the "State Systems" and the "Federal Insurance System" maintain expensive administrations of the same general problem. The administrative cost of the "Federal Insurance System" is likely, under this bill, to rise eventually to over \$100,000,000 per annum. The "Independent Systems" do not over-

lap so extensively in the administration field, and usually are managed more economically.

b. In the financial support of these three systems, the overlap is very great. Many of the "Independent Systems", and the "Federal Insurance System", are based upon payroll contributions, and thus many contributors are in both systems, are being twice insured and will receive benefits from both systems. The people do not need to be provided for twice over, and where they are in both systems, their deduction burdens are very great and a menace to their families' standard of living.

c. It is obvious that the "State Systems" must be maintained for many years to come. It would be many, many years before complete and adequate coverage and benefits could be attained by the "Federal Insurance System". Its benefits, even under the new bill, are inadequate in many instances, and must, in any event, be supplemented by the "State Systems" based upon need.

d. A careful inquiry might disclose an entirely different system which would avoid the huge costs of administration and the duplication, which would substitute some other form of taxation, more simple and more direct for its support, and which would give more positive security to the aged than this complicated system.

It is worth looking into.

I attach hereto the pages of the Report of the Commission on Organization of the Executive Branch of the Government, and those of our Task Force (The Brookings Institution), which relate to some parts of this subject.

*Yours faithfully,*

HERBERT HOOVER