

Tax Foundation's

Tax Review



NOVEMBER 1969
Vol. XXX, No. 11

The Future Role of Social Security

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The basic philosophy under which social security has operated in the more than three decades of its existence has been that it should provide a basic floor of protection on which individuals can build through their own efforts. If the social security floor-of-protection concept is changed so that it provides a full measure of economic security to virtually the entire population, the entire social and economic lives of everybody will be greatly affected.

It can rightfully be said that the floor-of-protection concept has been maintained over the more than three decades of social security. The level of benefits and the maximum amount of earnings taxable have increased in terms of dollars, but—as is really significant—not to any extent relative to the trend of prices and wages. The Executive Branch has almost without exception carefully safeguarded the financial position of the program by attempting to assure that sufficient funds would be available to meet future costs, not only in the next few years, but also in the long run. Congress, too, has considered financial soundness to be of the utmost importance.

Furthermore, Congress has been deeply concerned about maintaining the floor-of-protection concept. Frequently, when Congress considered recommendations of the Executive Branch, the proposals were amended or re-written so as to moderate them considerably. Seldom has Congress passed legislation exceeding a President's proposals.

Not everybody believes that social security should be only a basic floor of protection, although, in my opinion, most people hold this view. Employers and workers are quite willing to pay the social security

taxes to provide this floor of protection against basic economic risks. But there is considerable question, especially among younger workers, as to whether this tax cost should be drastically increased to expand the program fully and at the same time to replace parallel efforts in the private sector.

The real differences of opinion arise in respect to the future course of social security and its relative importance in the economic-security picture. Labels of categorization are often difficult to define because of the possibility of slanting the argument by the nomenclature adopted. Nonetheless, let me designate as "moderates" those who believe that the present system is reasonably adequate and plays a proper role in our society. Such viewpoint, of course, recognizes that modifications in the program

This Issue in Brief

The social security system is currently being debated by moderates who approve of the current role and expansionists who demand greatly increased benefits and other changes.

Dr. Myers reviews the elements in these two points of view and analyzes some of the proposals made by the expansionists.

He concludes that a choice can be made between the two schools and that the public, in the meantime, is entitled to hear all sides of the question of what the role of the social security system should be.

will be necessary in the future, primarily to keep the system up to date with, or to reflect changes in, economic, demographic, and social conditions, and also to remedy any significant problems.

On the other hand, there are the "expansionists," who believe that the social security program should provide the full economic security for the vast majority of the population (say, all but 5 or 10 percent). The expansionists hold the philosophy that private efforts in the economic security field have little likelihood of success. A vivid example of this was in the late 1930s and in the 1940s, when the advocates of national health insurance proclaimed that voluntary insurance could not have any significant impact in providing health insurance protection for persons of all ages. Despite this, the developing experience has shown otherwise.

The expansionists have the deep belief that social security should be predominant, or virtually monopolistic, in the economic security field. Accordingly, if their goals are attained there would be little need for private life insurance, individual savings, or private pension plans, except for persons with very high earnings.

Specifically, in the cash benefits area, the expansionists would increase the maximum earnings base that is creditable for benefits and that is taxable to about \$15,000 per year currently and would adjust this base upward automatically in the future as wages rise. This course would be followed so that full economic security could be provided under social security for virtually all people.

On the other hand, the moderates point out that, over the past two decades, the earnings base has

been maintained at approximately the same level relative to earnings (see accompanying table). They believe that this relationship should be continued in the future. Accordingly, if a change is to be made for 1970, an increase to \$8,400 at most is warranted, while under this theory, if the change is first effective for 1972, it should be to \$9,000.

Government Contribution of 50% Would Involve \$15 Billion Annual Cost

The expansionists argue that a \$15,000 earnings base for 1970 and a \$16,300 base for 1972 would merely restore the situation to what it was in 1937. The moderates reply that Congress re-examined this matter in connection with the 1950 amendments and decided that the depression-influenced original basis was not proper. Further, Congress has reaffirmed this action in all subsequent amendments.

Employer contributions under expansionist plans would be based on the entire payroll, without any maximum taxable earnings base. Moreover, the employer contribution rates would be double those for employees, instead of the present equal-rate basis. To make the greatly increased financing more "palatable" the expansionists strongly favor a government contribution out of general revenues in an amount equal to 50 percent of the combined employer-employee contribution receipts. At present, except for certain transitional provisions and except for the voluntary-individual Supplementary Medical Insurance program, the government makes no contributions to the program. A government contribution of this type is, of course, a very easy and simple way to increase the benefit level significantly without any apparent direct tax cost to anybody.

Since a government contribution on the order of 50 percent of the combined employer-employee contributions would involve an annual cost to the general treasury of \$15 billion or more, the approach of gradualism is sometimes suggested by the expansionists. Instead of an immediate 50 percent matching, continuing in all future years, a graduated basis is proposed. For example, the matching proportion could start at a modest 5 percent and increase slowly each year until attaining the ultimate level of 50 percent (or more).

In the field of financing, the moderates believe that the primary sources of any additional financing necessary are the savings to the system due to the rising trend of general earnings and to the



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increases in the maximum taxable earnings base required to keep it up to date with this trend. Then, any further financing needed should come from increasing equally the contribution rate on workers and employers, but this should be done with restraint and caution. Such procedure would make the real increases in the cost of the program readily apparent to all. In no instance, according to the view of the moderates, should the additional financing come from an increase in the earnings base beyond that called for by changes in the general level of earnings or from introducing a government contribution.

Proportion of Total Earnings in Covered Employment Covered
by Various Taxable Earnings Bases

Year	Earnings Base	Proportion of Earnings That is Taxable
Actual Experience for First Year for Which Base Was Effective		
1937	\$3,000	92.0%
1951	3,600	81.1
1955	4,200	80.3
1959	4,800	79.3
1966	6,600	80.2
1968	7,800	83.6
Projected Experience for 1970 and 1972 Under Present Base and Under Various Possible Bases		

1970	\$7,800	78.9%
1970	8,400	81.2
1970	9,000	83.0
1970	15,000	91.9
1972	7,800	76.2
1972	8,400	78.7
1972	9,000	80.8
1972	15,000	90.9
1972	16,300	91.9

Next, the expansionists would double the present benefit level—possibly and perhaps necessarily using the “ratchet” approach of asking for a 50 percent increase first and then continually pressing upward from whatever was actually enacted. Once these two steps had been achieved there would be little need for private economic security efforts for the vast majority of the population.

The expansionists have many other goals in addition to raising the level of cash benefits. They would expand the present “permanent and total” disability benefits so that this part of the program would become a short-term, temporary sickness

plan as well. This step would eliminate the sizeable existing network of private protection in this area—sick leave plans, private health insurance, and short-term savings for this purpose.

The expansionists also have extensive goals in the medical care field. Medicare would be extended not only to social security beneficiaries under age 65, but much more importantly, to the entire population. Cost-sharing provisions would be lessened or eliminated on the ground that they serve as financial barriers that keep people from getting necessary services. The moderates, in rebuttal, say that the problem of the costs of medical care for persons under age 65 can largely be handled through the private sector and that certain cost-sharing provisions are desirable to prevent over-utilization and are not in such amounts that most persons cannot afford to meet them out of their own pockets.

Expansionists' Increasing Benefits Goal Would Cut Private Savings, Insurance

It may be said, insofar as the moderates' viewpoint is concerned, that a governmental program of retirement benefits should provide only a certain level of benefits, available to the vast majority of people who retire from gainful employment. Such level of benefits should be sufficient so that, with real estate and other assets normally accumulated, the vast majority of beneficiaries will be able to have at least a reasonable subsistence.

This, of course, is still not a precise mathematical formula for measuring whether a floor of protection is being provided—and such is not really ever possible. A good, although rough, indicator is the proportion of persons receiving social insurance benefits who require supplementation through public assistance payments. Many persons believe that if less than 10 percent of social security beneficiaries fall in such category, the level of benefits is adequate and that this is a reasonably good yardstick of the adequacy of social security benefits. At present, this ratio is only about 7 percent, so that, even if we recognize that public assistance programs in some states may be somewhat inadequate, the test is readily met.

The position of the moderates is that, if a small minority have needs beyond the protection provided by social insurance, the solution is not to raise social security benefit levels, but rather to have adequate supplementary public assistance. This is

especially so when a substantial proportion of the minority involved is of a transitional nature, such as cohorts who were not covered under the social security program during their working lives, or who were not covered as extensively under private pension plans as is the case for current workers, or who were adversely affected by the depression of the 1930s and could not as readily accumulate individual resources as could individuals who began their working careers in the 1940s and later. Of course, there will always be a small residual of persons who have only sporadic employment during their working lives or who have unusual needs, and in these cases public assistance will be necessary.

The moderates favor continuation of the present self-supporting basis and thus oppose a government subsidy to social security. They argue that the introduction of a government subsidy would seriously weaken the cost controls over the program and that, because of budgetary or political reasons, the government subsidy might at some times not be paid in the amount required. Thus, it is not inconceivable that reliance on a government subsidy for financing a large portion of social security could lead to partial repudiation of benefit obligations.

Also arguing against government subsidy financing is that pressure would grow to restrict benefit payments to those with low incomes, since there is some question of partially financing benefits for people with large incomes from general revenues. If some sort of a means test were introduced into social security, there would be a deleterious effect on private insurance and savings. Many people would then find it not worthwhile to have income from such sources since it would essentially mean a corresponding reduction in Social Security benefits.

If the expansionist goal for increasing the level of social security benefits is achieved, the consequences must be clear to anyone. Not only would

there be the direct effect of eliminating most private sector efforts in the economic security field, but also a most significant effect on our national economy would occur. Private insurance and savings would be greatly reduced. This, in turn, would result in a shortage of investment funds for private industry to maintain and expand its economic-productivity activities. Accordingly, private industry would have to turn more and more to the government for such funds, and this could well mean increasing governmental regulation, control, and even ownership of productive activities.

The social security expansionists frequently place the moderates in a difficult debating situation. The expansionists attempt to set the conditions for the debate on the hypothesis that one is either for or against social security, and that if one is in favor of social security, then one must therefore support a complete expansionist approach. The expansionists thus try to take the position that all those who do not agree with them believe that social security should be repealed!

Quite naturally the moderates do not fall in either of these two extremes. They believe that the program should be kept up to date with changes in economic conditions. They further believe that the operation of the program should be continuously studied and that changes should be made from time to time as they are found necessary. These changes would generally, but not always, be in the direction of expanding the scope of the program. Any such action should be taken carefully and thoughtfully and only when it is found that the problem is not being reasonably satisfactorily handled through the private sector.

Despite the expansionist philosophy, there is a choice that can be made as to the future role of the social security program. The public is entitled to hear all sides of the question as to how much economic security should be provided through social security and how much should be provided through the private sector.