

Stans' disapproval of other built-in tax-hungry rising-cost programs. This system merits his greater disapproval. A "very small tail" is expected to "wag a very large dog."

8. *Self-Support*

After three decades of deriding the personal desire to be self-supporting, and under some labor-monopolistic wage adjustment, so that it is *said* labor has double its former *real wages*, I am unimpressed by the claim of the obsolescent term for "the system of OASI." It seems silly to me to tell these double-wage boys that they still need all the subsidies that have been thought up for them. The money comes from the tax-payers—and just as most taxes seem to come out of the "little citizen" earning less than \$20,000, I expect that most of the taxes in OASI will be paid by the same group. I guess that here it means to those taxpayers, as a message from the State: "We make the rules. You foot the bills."

9. *Need*

The second word in the paper is "need." Steadily the largest benefits go to the least needy. OAB in the needy year 1937 paid 1/10,000 of what they paid in the year called affluent—1959.

10. *Congressional Cost-Mindedness*

The proof of the pudding is in the eating. My attendance at Congressional Hearings has too little shown that cost-mindedness. I call them fiscally irresponsible. I am not really criticising Mr. Myers. He is in a tight spot. He has worked hard. But "You can't make a silk purse out of the sow's ear of collectivism."

AUTHOR'S REVIEW OF DISCUSSION

Mr. Williamson's extensive discussion of my paper concerns not only the paper, but also the more general topic of the nature of the OASDI system. My reply is confined to those points that I consider most important from an actuarial standpoint.

In general, it seems to me that Mr. Williamson is adversely criticizing development of the OASDI system to the extent that action in any direction had to be "wrong." For instance, he criticizes delay in the effectiveness of the program, pointing out that payments in the early years were very low. In this respect the fact that payments in 1959 were 10,000 times those in 1937 is really not significant because in the latter, the initial year of operation, there was no intention of having sizable payments; the ratio would have been infinity if 1959 is compared to 1936.

The program is now being effective in paying individual benefits in respect to a particular earnings level that are virtually as large as will ever be paid under present law and that go to a majority of the population aged 65 and over. Mr. Williamson ignores this as being a point for praise. Instead, he criticizes the program for paying benefits that are many times the actuarial value of the beneficiaries' contributions.

I am glad to note that Mr. Williamson recognizes the weakness in the argument that Mr. Ray M. Peterson has made about future entrants to the OASDI system paying more than the actuarial value of their benefits in that he includes both the employer and employee taxes in his analysis. As Mr. Williamson recognizes, the employer's tax must be considered as being pooled for the benefit of all covered persons.

In regard to whether the word "insurance" is being correctly used in connection with the OASDI system, I would be the first to agree that there has been misuse in the analogy between OASDI and private insurance. On the other hand, I cannot agree that the cited Supreme Court briefs stated that OASDI is "not *insurance*, but rather *gratuities*." Rather, the briefs brought out that the benefits are gratuities from an income tax standpoint; but, as I see it, this does not necessarily mean that the program is not social insurance. The 1959 brief stated, in essence, that OASDI is not an insurance program under which premiums are paid to acquire benefit rights, but this does not mean that it is not an insurance program of some other type, such as social insurance involving statutory rights to benefits. The 1959 brief does state that OASDI is "social security 'insurance' ". Furthermore, the Supreme Court, in its decision on the 1959 case, stated that "the social security system may accurately be described as a form of social insurance."

Mr. Williamson criticizes adversely the fact that present beneficiaries have "paid for" less than 10% of their benefits. A pension program of any type cannot provide adequate benefits and be effective within any reasonable period of time unless this situation prevails. Certainly this is true for private pension plans under which those retiring in the early years have contributed very little themselves and yet receive pensions based on prior service credits financed entirely by the employer. The employer may contribute very little for new entrants into such a pension plan—far less than for older employees at the inception of the plan.

Mr. Williamson also criticizes the use of an interest rate in connection with actuarial analysis and consideration of OASDI. Although the system is not fully funded—and I think that nobody would really like to see it on this basis—a significant proportion of the future financing (perhaps as much as 10%) is expected to come from interest earnings. More important, it is sound actuarial practice in comparing payments at different times in the future to use a reasonable interest rate.

In regard to the question of future generations objecting to OASDI tax rates greater for the employer-employee combined than the value of the benefits—I cannot see any problem either from the practical or theoretical standpoint. These individuals will, on the whole, "get their money's worth" in regard to the benefit protection compared with their own contributions. Moreover, when considered on a generation basis, future ones cannot consider the OASDI tax load alone, but also should take into account the many important physical assets bestowed upon them by today's generation.

Mr. Williamson points out that our cost estimates or projections are admittedly illustrations. I agree that these estimates are by no means as precise as valuations made for systems involving a closed group. On the other hand, I do not think that this means that our cost estimates—and particularly the

intermediate estimate, which is merely an average of the low-cost and high-cost estimates, as is quite openly stated—are of little value. I am convinced that they represent a good yardstick for measurement of changes in the cost of the present plan due to variations in the experience and the cost effects of proposed amendments.

The logical result of Mr. Williamson's views would be that no cost estimates at all would be made so that Congress would have no guidance as to cost aspects. Under such circumstances, any changes would be unmeasured even relatively as to cost in both the near-future and more-distant years. In the same way it seems unwise to follow Mr. Williamson's suggestion of disregarding future scheduled tax increases. The result would be that Congress might legislate a tax rate for only a year or two in the future, despite benefit liberalizations involving very high costs after a few years. And, of course, any benefits promised for the future would be difficult, if not impossible, to reduce when the financial pinch came.

Finally, I cannot agree that Congress, and especially the important Congressional committees involved, have not shown adequate cost-mindedness in dealing with OASDI legislation. I believe that on this point Mr. Williamson is coloring his views with his belief that there should not be any type of social insurance program in this area (but rather perhaps only a needs-test system). I have expressed my views on this matter in some detail in the last two paragraphs of my paper, where I point out that in a number of times in the past benefit liberalizations have been turned down for cost reasons.