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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. memo	Richard B. Wirthlin to James A. Baker, III re Summer Speech: Social Security, 4p.	6/23/82	~~P5~~ ~~Transferred to Reagan personal papers~~
2. notes	Social Security Speech Notes, 4p.	n.d.	~~P5~~
3. memo	White House Staffing Memorandum re Social Security Task Force (partial), 1p.	9/26/81	~~P5~~
4. memo	Fred F. Fielding to Richard Darman re Preliminary Outline of Bi-Partisan Task Force on Social Security Reform, 2p.	9/28/81	~~P5~~ OS 10/25/00

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
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- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

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M E M O R A N D U M

TO: James A. Baker, III

FROM: Richard B. Wirthlin

DATE: June 23, 1982

SUBJECT: Summer Speech: Social Security

As I indicated to you earlier, Jim, I recommend that the President address the nation this summer on the Social Security issue.

Social Security remains the most potentially damaging political issue that will hang over Republican political fortunes this Fall.

Positive changes in the President's job rating will help every Republican running for office. Fairness and compassion still remain the President's single most serious perceptual negatives. Social Security concerns, particularly for the 55-64 year olds, is the largest single issue source for these perceptions. In short, the President needs a bridge to diffuse the issue until the Greenspan Commission submits its report, at which time he will respond to the bipartisan suggestions for the reform of the Social Security program.

Perhaps more importantly, our Republican candidates need a politically tight and consistent frame of reference to neutralize effectively Democratic demagogery on the Social Security issue.

A presidential address in August can provide both that bridge and that frame of reference.

The Scope of Social Security Concerns

What happens to the Social Security program impacts a very large number of Americans. Three out of every ten U.S. households contain at least one member who receives Social Security benefit checks (ABC Poll, May 1981).

Of all government programs, Social Security is the single most widely supported. More than six out of ten say that Social Security benefits should be protected at all costs, even if money has to be taken from other government programs (Washington Post Poll, June 1981).

There is great fear among Americans today that this important program will not survive. Almost half (46%) say that the Social Security program is in financially bad shape (DMI Poll, May 1981).

Half of all Americans believe that Ronald Reagan has already cut Social Security benefits, and more than seven out of ten tag Ronald Reagan and the Republicans as opposed to Tip O'Neill and the Democrats with favoring cutting Social Security benefits in the future (DMI Poll, May 26, 1982).

The single statistic that reflects most clearly the despair that Americans are now feeling about Social Security is the 41% of those not retired who believe that, "They will receive no social security benefits at all."

Speech Elements

As Bob Teeter and I shared our thinking on this topic, Jim, some of the following may well be reflected in his memo of yesterday to you. But the bones of the speech should, I believe, follow this sequence:

A. Give rationale for now addressing the nation about this topic.

   1. Social Security was used as a political football on more than one occasion in 1981-82.

   2. As a result, it has become apparent that Americans are deeply concerned and confused about the status of the program and its future.

B. Re-express strong, personal commitment to both the principle and the program of Social Security.

C. Review status of reform--

   1. Formation of the Greenspan Commission.

2. The charge that was given to them when Commission formed.

3. Indicate that the Commission will submit recommendations in December of this year.

4. I (the President) will review those recommendations with these general principles in mind...(three audiences--those over 65, those getting ready to retire, and all other Social Security payees--and three messages).

   (a) For those Americans now retired who receive Social Security checks there should be no reduction in the benefits they receive today.

   (b) For those preparing to retire in the next few years, there should be no changes in the eligibility requirements.

   (c) For all other paying into the system, steps that will insure the financial soundness of the Social Security system.

D. There are some things we can do to help satisfy the above three objectives <u>now</u>.

   1. Waste and fraud in any governmental activity is abhorrent, but waste and fraud in the Social Security system is absolutely intolerable. I, therefore, am taking the following steps to make the system serve more efficiently.

   (Some of Senator Boschwitz's suggestions may be relevant such as Item #1 attached.)

<u>Timing</u>

I believe that early or middle August would be a better time to give the speech than July or September because in September the speech would be viewed as political, July comes too close on the heels of the COLA adjust and we need a highly visible filler for August.

<u>Down Side Risks</u>

You should be aware that there could be some negatives. These are:

A. If not crafted with great care the statement of principles could undercut Greenspan; that is, if interpreted as a dictation of criteria against which I am judging <u>a priori</u> the committee's recommendations. It would be a disaster if members of the Commission resign because the President "politicized the issue by dictating his terms."

B. The President may be inclined to review or defend any of the proposals we floated in 1981. This would be a major error.

C. It will increase the visibility of the issue and unless we are very careful about the tone and thrust of the speech, it might be used by the Democrats as a springboard to attack us.

Conclusion

In spite of the risks (most can be minimized), I do recommend the President speak about this important issue this summer.

Don't be scared
Everything will be OK.

Have Speech
writer call
Teeter.

Social Security Speech Notes

It is clear that social security has become an enormous negative for both the President and the Republican Party. While up until a few months ago it appeared that the best thing we could do is to leave it alone until after the 1982 election, that has now changed and it is just as clear that we will have to address it in order to off-set as much of the negative as possible or it will negatively affect Republican chances this Fall. It is the only negative issue in the polling data that sticks to the President personally.

This should be done by a major speech, on television if possible, by the President on the subject of social security, as soon as possible after the recipients begin to receive this year's benefit increase.

The speech would have several purposes. The first would be to off-set as much of the negative as possible about the President's and the Party's position on social security; second, pre-empt some of the ground the Democrats would use to attack on the issue; and thirdly, alay some of the intense fears among those who currently are on social security and that critical group of 55 to 65 year olds who are about to come on line.

My thoughts are that the storyline or major points of such a speech would be:

1. Those of you who are on social security have just received a 7.4% increase in your monthly benefits. As you may know, some (the Democrats) have accused me of wanting to stop this increase from going through or to reduce it. Neither of these are true. I promised that those of you receiving social security benefits would receive a cost of living increase and at no time ever wavered on that promise. At no time has the Administration made any effort to reduce this increase in your benefits which you began receiving on July 1. This increase will mean more than it has in   years because inflation is down dramatically to an annual rate of   for the first half of this year and the evidence is it will stay down.
2. (At this point the speech should review the history of the most recent 3,4, or 5% increases and the inflation rates to prove that only under his administration have these benefit increases really meant something.)
3. I believe that social security is the most important social program we have. It is something 36 million of our citizens rely on and it is an essential element of most people's

planning for retirement. It is essential that its integrity and stability be maintained.

4. It has become clear over the past years that the social security system has been paying out more than it takes in and that the problem has been getting worse. Last year, for example,

This problem has been ignored and patched by borrowing,etc. This obviously cannot go on or there simply is not going to be the money to pay benefits to those who have earned and planned on them. I am not going to let that happen.

5. There are going to have to be some changes made in the system to assure that those benefits are there for people who have earned them. Because this is such an important and sensitive issue, I appointed a bipartisan commission chaired by Alan Greenspan. It is made up of and is scheduled to report on January 1, 1983. While various changes have been discussed in the Administration and Congress this year, it is clear that no changes are going to be made. I am in full agreement with that. First, I think the

commission should have time to complete its work and, second, the months leading up to a political campaign are not the time to deal with such an important and sensitive issue.

6. Let me tell you what my position is on this issue. First is that the Administration does not have or has not proposed any specific set of changes. It is my intention to work with the commission and Congress to come up with a set of reforms that will ensure the health of the system. This is an issue that is too important to allow to become a partisan fight.

I do have, however, a set of criteria that I will use in deciding whether to support or approve any proposals the commission or Congress comes up with. I will not sign any bill with changes to the system that don't meet the criteria. They are:

a. No one who is currently receiving benefits will have those reduced in any way.

b. The benefit structure for those of you who will begin receiving benefits in the next ten years will not be changed, so that you who have made plans will not have to change them.

c.

d.

7. It is a terrible and tragic thing that some have tried to scare many of you with this issue for political purposes. I realize that social security is the only money some of you have, and to threaten someone unnecessarily is a terrible thing to do. I want to pledge to you that as long as I am President I will protect your social security benefits, and whatever changes are made will be to ensure the health and integrity of the system not reduce your benefits.

SOCIAL SECURITY SAVINGS TABLE

(In billions. Example: 3.400 is $3 billion 400 million and .700 is $700 million)

Item number corresponds with number in text	1983	1984	1985	1986	TOTAL
1. (eliminate foreigners)	.700	$.800^{e}$	$.900^{e}$	1.000^{e}	3.400
2. (raise to 120 qtrs)	.500	2.000	3.500	4.200^{e}	10.200
3. (earn 1 credit per quarter)	$.005^{e}$	$.020^{e}$	$.035^{e}$	$.050^{e}$	.155
4. (cover new government workers)	.300	1.100	2.000	3.000	6.400
5. (no children's benefits in early retirement)	.030	.200	.400	.500	1.130
6. (increase self-employment tax)	.800	1.900	2.000	2.700^{e}	7.100
7. (increase work incentives)	$.900^{e}$	1.400^{e}	2.000^{e}	2.700^{e}	7.000
8. (raise offset age)	.815	1.170	1.245	1.500^{e}	4.730
9. (tax Social Security if there is large outside income)	3.200	3.800	4.600	5.400	17.000
10. (raise age to 65 + 3 months)	2.700^{e}	3.000^{e}	3.000^{e}	3.000^{e}	11.700
11. (raise age to 65 + 6 months)	5.400^{e}	6.000^{e}	6.000^{e}	6.000^{e}	23.400
12. (COLA 3% except lowest 25% of recipients)	7.500	13.600	20.800	30.000	71.900
13. (3 month COLA delay)	2.800	3.400	3.300	3.400	12.900
14. (½ index for bendpoints)	.025	.200	.500	1.000	1.725
15. (eliminate children's benefit if parents' income $25,000)	$.500^{c}$	$.700^{c}$	1.000^{e}	1.200^{e}	2.500
16. (increase benefit computation by 3 years)	.010	.100	.200	.300	.610
17. (eliminate parents' benefit if child is below age 6)	.050	.170	.300	.410	.930
18. (cap disability benefits)	.400	.400	.450	.450	1.700
19. (increase quarters needed for disability)	.200	.800	1.700	3.300^{e}	6.000
					167.080*

e = office estimate * = item 11 not included in total

children of those people receiving Social Security today.

Some facts: (1) the average Social Security recipient now gets back $5.60 for every $1.00 they put in; (2) there are 3 people working for every one drawing Social Security (in 1945 there was a 42:1 ratio; in the year 2020 the ratio will be close to 2:1); (3) despite all the scare stories you might hear, Social Security is not going to go broke but it does need some repairs. Here's a list of 19 repairs and what each one would save every year.

1. Limit Social Security benefits paid to foreigners not living in the United States (this limitation would not apply to Americans living abroad). From now on they receive no more in benefits than they paid in. In one case a foreigner living in his country paid in $25 and collected more than $11,000 in benefits; another paid $397 into Social Security and collected $42,000 in benefits. Annual savings of this limitation: $700 million. Over 4 years the savings total $3.4 billion.

2. Increase immediately the number of quarters (3-month periods) one has to work to qualify for full Social Security. Currently a person has to work only 31 quarters (7 3/4 years) to qualify for maximum benefits. That's what causes the so-called double and triple dipping and allows a government worker to earn one (sometimes two) pensions and then work for less than 8 years and get Social Security. Meanwhile a person who works a lifetime of 40-45 years in the private sector may get only Social Security. While making exceptions for self-employed people only recently included within the Social Security system, raise the number of quarters one has to work to receive full Social Security from 31 (7 3/4 years) to 120 (30 years), except women for whom the number of quarters would be raised to 60, if they spent 60 or more quarters raising a family. Savings from this would be $500 million in 1983, and total savings of $10.2 billion over the next 4 years (1983-86).

3. As stated, currently you only have to work 31 quarters to get full Social Security benefits. A quarter is a 3-month period during which a worker earns more than $340 (that's less than $30 a week). Suppose a worker earns $1,360 (4 times $340) in that quarter. Under present rules a worker gets credit for 4 quarters, even if he doesn't work at all the rest of the year. Change this rule. One quarter's work should only get one quarter's credit. The savings would be $5 million in 1983 and $155 million over the next 4 years.

4. Require all new government employees (federal, state and local) to pay into Social Security. This would bring about $2 billion in new revenues into the trust fund in 1984, and over $19 billion over the next 5 years. Net income to the government would be $300 million in 1983 and $6.4 billion in 1983-86. This is less than the $19 billion that would go to the Social Security trust fund because some of those affected would stop paying civil service retirement taxes.

5. If a worker takes early retirement at 62 and has children under 18, the worker receives benefits and the kids receive separate benefits as well. If a worker retires early (at age 62) and has young children under 18, the kids should not get benefits until the retiree is 65 (unless he retired early for health reasons). Savings in 1983 are $30 million, and a total savings of $1,300,000,000 over the next 4 years.

6. Self-employed people withhold less Social Security tax on their wages than a worker and his employer combined by quite a bit (their tax rate is 70 percent of the rate paid by workers and employers together). Increase the self-employed person's withholdings by 2 percent. Additional revenue in 1983 is $800 million and in the 1983-86 period a total of $7.1 billion.

7. Give incentives to keep working beyond 65. Some people don't want to retire anyway, and shouldn't. If a person retires at 66, the worker should receive an extra 5 percent (105 percent of the regular Social Security benefit): at 67 an extra 11 percent (5 percent plus 6 percent); at 68 an extra 18 percent (5 + 6 + 7 percent); at

69 an extra 26 percent (5+6+7+8 percent) and if the worker retires at 70 an extra 35 percent (5+6+7+8+9 percent). In other words a person retiring at 70 would get an extra 35 percent on his Social Security check every month. If even ½ of 1 percent of the people delayed retiring, savings in 1983 would be $700 million and in the 1983-86 period would total $5.5 billion. In addition, not only would there be savings in Social Security payouts, the system would receive $200 million more in income in 1983 and $1.5 billion for the 1983-86 period. Would this cost the Social Security System money in the long run? Only if the recipient lives past 90.

8. Currently people over 72 who keep working (going down to 70 in a couple of years) receive benefits no matter how much they earn. People under 72 lose $1 of Social Security benefits for each $2 of income they earn over $6,000. Raise the age to 75 and leave it there. This would save $815 million in 1983, and $4.7 billion in the 1983-86 time period.

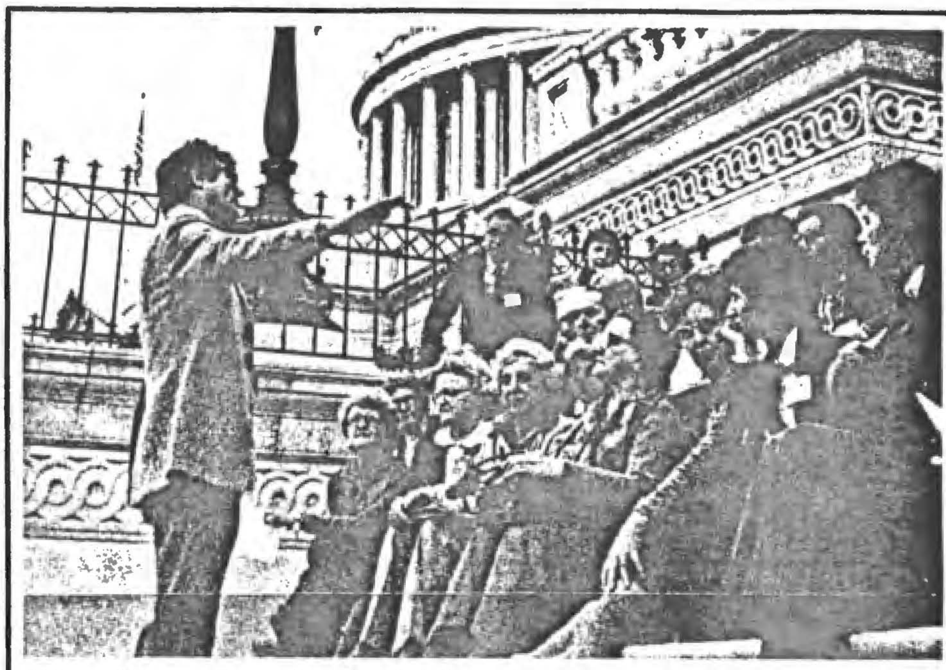
9. Tax Social Security payments if the Social Security recipient has income exceeding $20,000 besides Social Security ($25,000 for couples). Additional revenues in 1983 would be $3.2 billion and in the 1983-86 time period would total $17 billion.

10. The 65-year-old retirement age was established in 1937 when average life expectancy was 64 (it's no wonder the Social Security fund had surpluses in those days!). People live longer and healthier lives today. Raise the 65-year-old age to 65 + 3 months (and the 62 year early retirement age to 62 years + 3 months). The savings in 1983 would be $2.7 billion and $11.7 billion for the 4 years 1983-1986.

11. Raise the retirement age to 65 years + 6 months (probably politically impossible and perhaps not necessary as adequate savings can be found elsewhere). The savings in 1983 would be $5.4 billion and $23.2 billion for the 4 years 1983-86.

12. The COLA is the annual cost-of-living adjustment. This means the Social Security benefits are raised each year for inflation. There has been much talk by senior Republicans and Democrats to eliminate the COLA altogether for one or more years or otherwise drastically reduce the COLA. Such drastic surgery isn't necessary.

My approach on the cost-of-living adjustment (COLA) is to lower it for a 4-year period only. However, continue the full COLA for the lowest 25 percent of Social Security recipients. The COLA on Social Security is a recent addition (1975) and gives Social Security recipients a boost each year to keep up with inflation. It was not a part of the original Social Security system and very few private pension plans have any COLA at all. In recent years Social Security benefits have gone up faster than wages, though no one could maintain that Social Security recipients are getting rich. The COLA is now the inflation rate. Lowering the COLA to 3 percent in 1982 (and it looks like inflation will be only 5



Controlling, not cutting Social Security

Minnesotans visiting in Washington often ask me if Social Security will be around when they or their children retire. I tell them yes, but some changes will be necessary to keep the costs of the program under control.

percent) and then by 3 percent less than the inflation rate for the 3 following years would save $7.5 billion in 1983 and (an amazing) $72 billion over the 4 years 1983-86.

13. The COLA now comes on July 1. This goes back to the time when the government's financial year began on July 1. The government's financial year now begins on October 1. If the COLA adjustment is given on October 1 each year (not July 1), the savings in 1983 would be $2.8 billion and for the 5-year period 1982-86 a total of $12.9 billion ($3.4 comes in 1982).

14. For a 4-year period only index "bendpoints" by one-half of the wage index (bendpoints now go up by the entire wage index). Social Security monthly benefits are based on a schedule of percentages of the worker's average monthly earnings. The schedule is:

- 90% of the first $230;
- 32% from $230 through $1,388;
- 15% over $1,388.

$230 and $1,388 are the "bendpoints" and the bendpoints go up every year the same percentage that average national wages go up. This will do more to balance out the Social Security system in the long run than anything mentioned so far. However, it saves nothing in 1983, but in 1984-86 it saves a total of $2.1 billion.

15. If one parent dies, and the remaining parent has an income exceeding $25,000, or eventually marries someone with an income exceeding $25,000, then minor children do not receive survivor benefits. This would save $500 million in 1983, and $2.5 billion in the 4-year period 1983-86.

16. Lengthen the benefit computation period by 3 years. Benefits are determined by applying a formula to a worker's average monthly earnings over a certain time period. In most retirement cases, the averaging period is the number of years after 1950 up until the year the person reaches 62, less the 5 lowest years. Instead of subtracting 5 years from the computation of average earnings, we should drop only 2 years. This would still allow some adjustment for low earnings, but would tie benefits more closely to actual earnings. Savings are $10 million in 1983, and $610 million in the 4-year period 1983-86.

17. Eliminate parents' benefit when the youngest child is age 6. If a worker covered by Social Security dies and leaves a child (or children) each one of the children gets "survivors benefits" until they're 18. If the youngest child is under 16, the surviving parent also gets separate "survivors benefits." This would eliminate the surviving parent's benefits after the youngest child reaches 6 -- not 16. Restricting the parent's benefit to those with children under age 6 would reduce spending by $50 million in 1983, and $930 million over the next 4 years. The child's benefits would not be changed. This proposal acknowledges the major increase in the number of women working in outside jobs over the past decade. When these benefits were first added to the Social Security system most mothers were not employed. This might be considered a pretty "hard hearted" change, and I may be wrong. But I do believe it should be considered. I have had many women employees who returned to work within 90 days of having a baby because her family needed two incomes. Should someone on Social Security be treated better. . . by 16 years? Perhaps, when there is only one parent.

18. Expand workers' compensation offset. About 165,000 people now receiving Social Security disability benefits also receive payments from other federal programs -- veterans compensation, civil service and military disability retirement benefits and blacklung benefits. All these benefits are calculated without regard to what other benefits the person is receiving. However, people eligible for Social Security disability after February, 1981, have a "cap" on their total combined benefits equal to 80 percent of their average predisability earnings. Extending this provision to all recipients (not just

The Heritage Foundation Backgrounder

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December 14, 1981

Rx FOR SOCIAL SECURITY: THE FIRST STEPS

INTRODUCTION

The Social Security system has enjoyed overwhelming public support since its inception and is frequently called the single most successful income security program in American history. However, as the system's deficiencies become more apparent, public confidence in it is being rapidly eroded. A recent nationwide poll conducted by Sindlinger and Company, Inc., for The Heritage Foundation revealed that 84 percent of those surveyed expressed little or no confidence in the financial soundness of Social Security. Several members of the Administration have testified that unless immediate action is taken the most devastating bankruptcy in history could occur on or about November 3, 1982. This could be a disaster for the many people dependent on current or expected future benefits. The program currently covers 90 percent of the labor force and provides income support to 36 million elderly or disabled Americans and their dependents. Although Congress has repeatedly insisted that it would never allow the Social Security system to fail, it is becoming increasingly clear that unless the practice of providing excessively generous benefits is reversed, the resulting financial burden may lead to the system's collapse.

Social Security's underlying problems result from its conflicting objectives -- to be both an insurance program and a welfare program. Even though constant constituent pressure to raise benefits, whether earned or unearned, has effectively destroyed the link between contributions and benefits, there are still many who complain that their benefits are inadequate. The fact is that most current retirees are earning an extremely high return on their "investment," but economic realities and demographic shifts will make this all but impossible in years to come. Stanford University economist Michael Boskin predicts that "if we wait until the baby-boom generation retires before we begin to deal with the tremendous long-term deficit in Social Security, we will see the greatest tax revolt and age warfare in the history of the United States."[1] In short, the government has promised benefits that will be difficult to provide under projected conditions. The only way to avoid the cataclysm described by Boskin is to examine the system thoroughly and then to reform it. President Reagan's appeal for immediate action in dealing with the problems facing the economy is equally applicable to Social Security:

> Can anyone here say that if we can't do it, someone down the road can do it? And if no one does it, what happens to the country? All of us here know the economy would face an eventual collapse. I know it's a hell of a challenge, but ask yourselves: If not us, who? If not now, when?[2]

BACKGROUND

The Social Security Act was signed into law on August 14, 1935, and established a federal Old Age Insurance (OAI) system designed to provide workers with monthly benefits upon retirement at age 65. Social Security originally was intended as an insurance program to replace a portion of workers' earnings lost as a result of retirement. Participants were urged not to rely solely on Social Security for old age support, but to supplement their retirement incomes from other sources. President Roosevelt alluded to this point in his message to Congress on June 8, 1934:

> Ample scope is left for the exercise of private initiative. In fact, in the process of recovery, I am greatly hoping that repeated promises of private investment and private initiative to relieve the government in the immediate future of much of the burden it has assumed, will be fulfilled.[3]

Similar sentiments were expressed by members of Congress. The report of the House Ways and Means Committee on April 5, 1935 described the purpose of Social Security:

> While humanely providing for those in distress... [Social Security] does not proceed upon the destructive theory that the citizens should look to the government for everything. On the contrary, it seeks to reduce dependency and to encourage thrift and self-support.[4]

---

1 "The Crisis in Social Security," Newsweek, June 1, 1981, p. 25.
2 Charles Alexander, "Making it Work," Time, September 21, 1981, p. 38.
3 Cited in Peter J. Ferrara, Social Security: The Inherent Contradiction (San Francisco, California: CATO Institute, 1980), p. 18.
4 Cited Ibid., p. 19.

In sum, the basic goal of Social Security was to provide safeguards against the worst misfortunes and vicissitudes of life, but not to provide the sole means of support for the elderly.

The program has been financed through a special Social Security payroll tax, which is assessed against a portion of earned income. This tax was to be shared equally by employee and employer alike, although economists generally agree that the employee bears the full burden of the tax.[5] The self-employed pay a flat tax rate that has ranged from two-thirds to three-fourths of the combined employer-employee tax. In 1937, the combined tax rate for employers and employees was 2 percent levied against the first $3,000 of earned income.

A payroll tax is the appropriate mechanism for financing such benefits because it captures the quid pro quo nature of an insurance program. As a result, people have come to view their contributions to Social Security as premiums on insurance, giving them title to annuities from the government in their old age. Over the years, the program has extended protection to cover its participants and their dependents from costs associated with disability, hospitalization, and death.[6]

At the same time, Social Security taxes have soared. (See Table 1.) The inexorable growth of Social Security taxes has imposed an increasingly severe burden on workers. In the early years, these taxes grew relatively slowly. In 1937, the maximum tax payable was only $60, which remained constant until 1950, when it was raised to $90. Since then, the maximum has grown at a steady and ever more rapid rate, increasing an astounding 900 percent between 1965 and 1981. Inclusion of hospital insurance raises the total to $3,950.10 today. This extraordinary increase can be attributed primarily to the program's departure from strict insurance principles and the inclusion of a sizable unearned component in the payment of benefits.

The future costs of financing Social Security appear even more disturbing. Table 2 projects tax rates of the Social Security system if benefit payments and financing methods are not altered. By the year 2030, Social Security payroll taxes approach one quarter of taxable payroll. This number could surpass 40 percent if more pessimistic but actuarially possible assumptions are accurate.

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5 This point will be discussed in more detail later. Also, see John A. Brittain, "The Incidence of Social Security Payroll Taxes," American Economic Review LXI (March 1971), pp. 110-125 and Ferrara, op. cit., pp. 405-412.

6 Benefits were added for survivors of deceased workers in 1939, at which time the program became known as the Old-Age Survivors Insurance (OASI) program. Disability insurance (DI) was added in 1957; hospital insurance (HI) in 1966. Each has its own trust fund and is financed by its own tax, although all three are assessed together as if one tax: the OASDHI tax.

Table 1

Years	Maximum Taxable Income	Tax Rates (percent of taxable payroll) Employee and Employer Combined	Self-employed	Maximum Tax for employees and employers combined
1937-49	$ 3,000	2.00		$ 60.00
1950	3,000	3.00		90.00
1951-53	3,600	3.00	2.25	108.00
1954	4,200	4.00	3.00	144.00
1955-56	4,200	4.00	3.00	168.00
1957-58	4,200	4.50	3.375	189.00
1959	4,800	5.00	3.75	240.00
1960-61	4,800	6.00	4.50	288.00
1962	4,800	6.25	4.70	300.00
1963-65	4,800	7.25	5.40	348.00
1966	6,600	8.40	6.15	554.40
1967	6,600	8.80	6.40	580.80
1968	7,800	8.80	6.40	686.40
1969-70	7,800	9.60	6.90	748.80
1971	7,800	10.40	7.50	811.20
1972	9,000	10.40	7.50	936.00
1973	10,800	11.70	8.00	1,263.60
1974	13,200	11.70	7.90	1,544.40
1975	14,100	11.70	7.90	1,649.70
1976	15,300	11.70	7.90	1,790.10
1977	16,500	11.70	7.90	1,930.50
1978	17,700	12.10	8.10	2,141.70
1979	22,900	12.26	8.10	2,807.54
1980	25,900	12.26	8.10	3,175.34
1981	29,700	13.30	9.30	3,950.10

Since its inception, Social Security has also fulfilled a social adequacy function, paying some individuals benefits solely on the basis of need, whether or not they have paid for these benefits through their taxes. In fact, many of the benefits provided by Social Security are completely unrelated to a worker's contributions and are largely responsible for the emasculated condition of the Social Security trust funds. The Social Security system is an inappropriate vehicle for achieving these putative welfare objectives because it is financed by a regressive payroll tax.[7] While such a tax is suitable for the insurance goal of Social Security, there can be no reasonable justification for providing welfare benefits by a tax that places its heaviest burden on the very group it is designed to help. In short, the increasing instability of the Social Security system is linked to

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7 This tax is considered regressive because it is levied proportionately up to the ceiling, at which point the tax rate becomes zero and thus takes a greater proportion of income at the lower end. The regressivity is increased when unearned income is included as part of total income.

manner is very inefficient and often leads to payment of considerable unearned benefits to people who would not qualify as needy under most definitions. Social Security's contradictory goals make it both a poor tool of income redistribution and an unsound insurance program.

Benefit Formula

A worker's benefit is determined on the basis of his earnings record in covered employment. Once a worker's average indexed monthly earnings (AIME) are computed, a primary insurance amount (PIA), which is the worker's benefit, is found by applying the AIME to a special formula. In 1981, this formula was:

90 percent of the first $211 of AIME, plus
32 percent of the next $1,063 of AIME, plus
15 percent of all AIME over $1,274.[8]

This formula is adjusted annually by the rate of increase in wages. A person's PIA is reduced by five-ninths of 1 percent for each month benefits are received before the age of 65 and is raised by one-fourth of 1 percent for each month receipt is delayed.

The benefit schedule is clearly weighted to favor lower income classes. This bias is evident in in Table 3, which compares benefits of two workers with differing earnings, one with an AIME of $1,100 and the other with an AIME of $220. Although the former worker paid about five times as much in taxes, his benefit is only about two-and-a-half times as large. The benefit-to-taxes ratio falls still further as a recipient's AIME crosses the $1,274 threshold and is pushed from the 32 percent benefit bracket to the 15 percent bracket.

Other factors, however, tend to work against the poor. They are more likely to pay payroll taxes over a longer period than the rich, who can delay their entry into the labor force by extending their schooling. The typically shorter life span of lower-income groups, moreover, means that they do not collect benefits for as long as the rich do. Finally, the tax-exempt status of Social Security benefits is a more valuable feature to wealthy beneficiaries in higher marginal tax brackets.

To ensure individual equity, benefit payments should be closely related to past contributions. Adopting a strictly proportional benefit structure would be a more equitable approach to disbursing benefits.

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8 This formula is used for those reaching the age of 62 after 1978. For those attaining age 62 prior to 1979, a more munificent benefit structure is used to determine benefits. In addition, those becoming 62 at any time from 1979 through 1983 have a choice of either formula for calculating retirement benefits.

Table 2

Projected Tax Rates Necessary to Finance
Present Social Security Program

Calendar Year	Tax Rates (percent of taxable payroll) Employee and Employer Combined	Self-employed
1982-84	13.40	9.35
1985	14.10	9.90
1986-89	14.30	10.00
1990	15.30	10.75
2000	15.60	10.75
2010	17.20	11.50
2020	21.10	14.10
2030	24.60	16.40
2040	24.70	16.40
2050	24.40	16.20

NOTE: Figures from 1980 through 1990 are the tax rates scheduled in present law. The figures for the year 2000 and later represent the tax rates necessary, based on the intermediate assumptions in the the 1979 Trustees Reports, to finance benefits and administrative expenses assuming no change is made in present law. This does not include the taxes necessary to support the Supplementary Medical Insurance program, which is not financed by payroll taxes.

SOURCE: Adapted from A. Haeworth Robertson, The Coming Revolution in Social Security (McLean, Virginia: Security Press, Inc., 1981), p. 63.

its two conflicting goals: individual equity and social adequacy. The key to reforming Social Security thus is to separate the transfer and annuity functions and finance them through general revenues and payroll taxes respectively. The transfer component then could be completely needs-oriented. Only after crossing this Rubicon will Social Security resemble the retirement program it was intended to be.

THE PROBLEM OF INEQUITY

Social Security suffers from serious inequities, which occur between people within the same generation as well as between those of different generations. These inequities result from Social Security's quixotic social adequacy function, which often pays benefits regardless of whether or not they are earned. These transfers are advocated in the belief that recipients need financial assistance. However, no proof of need is ever required because it is determined by surrogate measures supposedly reflecting need, such as age, family size, and earnings in employment covered by Social Security. Distributing benefits in such a

Though there are reasons for the earnings test, it is one of the more inefficient and inequitable provisions of Social Security. Supporters of the earnings test contend that by continuing to work beyond the age of 65, the elderly restrict the job market for younger workers. This view is an example of the "lump of labor fallacy," which falsely holds that there are only a given number of jobs available in the economy and that one person's gain is another person's loss.

The 50 percent benefit reduction rate on earnings above a set limit effectively raises marginal tax rates for older workers. When this reduction is combined with the income and Social Security payroll taxes, which they also pay, these workers become one of the nation's most heavily taxed groups. As a result, many of the elderly who otherwise would have continued working are involuntarily forced into retirement. Rather than encouraging older people to provide more for themselves, the earnings test makes it difficult, if not impossible, for them to supplement their income; in many cases, it may actually lower their standard of living. Alicia Munnell, vice president and economist of the Federal Reserve Bank of Boston, has accurately described some of the pernicious effects of the retirement test:

> In sum, there is good reason to be concerned about the provision of Social Security law that discourages labor force participation of people over sixty-two who prefer to continue working. By limiting available income sources, such a deterrent reduces the welfare of the elderly. The burden falls particularly heavily on low-income people, who seldom have other sources of retirement income such as private insurance, pension benefits, or savings. In addition, any provision that encourages a smaller labor force in future years will force a significantly higher tax rate in the long run.[12]

Moreover, this constraint on earnings misallocates resources and lowers potential output by distorting the labor-leisure decision of older people. This loss is particularly egregious given the experience and knowledge the elderly have to offer.

The greatest inequity of the earnings test is that it denies the elderly benefits they have paid for during their working years. This problem again arises from a confusion of insurance and welfare objectives. Paul H. Douglas, an economist who helped draft the amendments to the Social Security Act and who later became a U.S. senator from Illinois, elaborated on this problem:

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12 Alicia Munnell, The Future of Social Security (Washington, D.C.: The Brookings Institution, 1977), p. 82.

Table 3

Comparison of the Primary Insurance Amount of Workers With Different AIMEs[9]

	AIME of $220	AIME of $1,100
90 percent of $211	$189.90	$189.90
32 percent of $ 9	2.88	---
32 percent of $889	---	284.48
Primary Insurance Amount	$192.78	$474.38

Retirement Test

There is much controversy regarding Social Security's so-called earnings, or retirement, test, which limits benefit payments to otherwise eligible Social Security recipients earning more than a specified amount. In 1981, those aged 65 to 71 will lose $1 for every $2 earned in excess of $5,500. (The amount exempt for beneficiaries under 65 is $4,080.) This limitation was perceived as unfair by more than 65 percent of those surveyed in the Heritage Foundation poll. However, the penalty is justified by proponents of the test for several reasons. First, because Social Security was originally intended to partially replace earnings lost as a result of retirement, individuals continuing to work have earnings that remove the need for Social Security benefits. Second, by inducing the elderly to retire, problems with unemployment are relieved somewhat by making more jobs available for younger workers. Finally, members of the National Commission on Social Security argue in a recent report that repealing the earnings test would cause intergenerational inequities by allowing higher-earning workers to remain employed while receiving full benefits and compelling their younger, lower-paid co-workers to finance these benefits through their contributions to Social Security.[10] The real motivation for hanging onto the retirement test, however, is the cost of paying increased benefits. These may be difficult to finance in light of the impending crisis in Social Security.[11]

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9 This is an updated version of an example in J. W. Van Gorkom, Social Security Revisited (Washington, D.C.: American Enterprise Institute, 1979), p. 14.

10 National Commission on Social Security, Social Security in America's Future, Washington, D.C., March 1981, p. 150.

11 The first-year cost would be about 6 to 7 billion dollars and more in later years. For those aged 65 and older, however, the cost in the first year is only about 2 billion dollars.

A more productive economy could be achieved by eliminating this restraint on the elderly.

Two further inequities associated with the retirement test should be mentioned. First, distortions arise from differences in the cost of living across the nation. Because the limitation is in current, rather than real dollars, beneficiaries in some areas are unfairly more restricted than in others. Second, Social Security's treatment of earned income differs from that of many other retirement plans, which allow workers to take other employment without sacrificing their annuities.

Finally, there are several immediate benefits from expunging the earnings test: increased labor force participation would add to income and Social Security payroll tax collections; costs to the Social Security Administration would decline by reducing the administrative burden of enforcing the test; and perhaps most compelling of all, an unfair and costly onus would be lifted from the aged.

Spouse's Benefit[16]

The spouse's benefit, added to Social Security in 1939, consists of two parts: a retirement benefit, which awards the wife of a retired worker 50 percent of her husband's benefit; and a survivor's benefit, which grants a widow 100 percent of her husband's benefit. These annuities become available in full after participants reach age 65, although reduced benefits are provided under each part for women who are 62 and 60 years of age respectively. In essence, this measure is an unearned benefit awarded on the premise that a worker with a wife is more needy than a single worker. This provision distorts the nexus between benefits and contributions while adding considerably to the system's cost.

As a result, the spouse's benefit creates a number of inequities. First, married workers receive greater protection than single workers under Social Security. A married worker is entitled to receive 50 percent more in benefits than a single worker contributing an equal amount in taxes. Forcing single workers to subsidize their married counterparts is clearly a violation of determining payments based on insurance principles.

Second, there are inequities associated with the unequal treatment of working and non-working wives. Married women may find that the protection they receive based on their earnings record adds little or nothing to the coverage they already have

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16 Similar benefits are available for children, grandchildren, parents and divorced wives. The size of the benefit depends on the worker's PIA. For simplicity, the discussion here is restricted only to the spouse's benefit.

> This provision, however, is in part a confusion of the idea of relief with that of insurance. The workers will have made direct contributions for half of their annuities and indirectly will have paid for most of the employers' contributions as well. When the system is thoroughly established, they will therefore have earned their annuities. To require them to give up gainful employment is, in reality, attaching a condition upon insurance which they have themselves bought.[13]

Peter Ferrara compares this to a bank withholding cash from a customer because it felt that the customer did not need the money.[14] Is it fair for the government to coerce people into Social Security and then deny them benefits if they choose to work beyond a certain age? In addition, full benefits are received after age 72 regardless of whether the recipient has substantial earnings or not. This inconsistency is a direct antithesis to the rationale advanced by advocates of the retirement test.

The earnings test limits benefits on the basis of earned income, yet allows full benefits even if there is enormous income from other sources such as dividends, interest, capital gains, or rents. This also discriminates against low-income workers since they rely primarily on wage income, while the wealthy are able to supplement their retirement incomes through various investments. What justification is there, moreover, for a distinction between earned and unearned income? Both can be viewed as a return on an investment. Marshall Colberg, professor of economics at Florida State University, writes:

> Investment in the individual is now seen to be similar in many ways to investment in material resources. Formal education, vocational training, on-the-job training, and even expenditures on health, on migration, and on searching for information about prices and incomes have been viewed as investments in human capital....Interest earnings on material and human capital are consequently not inherently unlike....
>
> For many persons and under many conditions during their lifetime, material resources and human resources are practical alternatives for investment. Yet interest from following the former course is considered by law to be "unearned income" while equivalent interest derived from the latter course is called "earned income".... Interest on this form of capital encounters the problem of the Social Security earnings test while interest on material capital escapes the test.[15]

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13 Marshall Colberg, The Social Security Retirement Test: Right or Wrong (Washington, D.C.: American Enterprise Institute, 1978), pp. 2-3.

14 Ferrara, op. cit., p. 244.

15 Colberg, op. cit., pp. 23-25.

Just how this transfer works is clear from the case of an individual with average earnings, 62 years old in 1937, who retired at age 65 in 1940.[17] If he invested his Social Security contributions at the interest rates then prevailing, he would have accumulated a retirement fund of $68.36 by 1940, yielding him $6.59 per year. From the standpoint of social adequacy, however, such benefits were considered too meager. The average annual Social Security benefit actually awarded in 1940 to a 65-year-old male was $270.60 -- yielding the beneficiary a $264.01 windfall. But since these benefits were subject to periodic changes, it is more useful to compare capitalized savings and benefits. The present value of lifetime Social Security benefits for this individual would have been $2,962.09, resulting in a pure transfer of $2,893.73 or 97.7 percent of benefits received. However, the relative size of this unearned component has been falling over time as the system has been maturing.

A factor contributing to a significant reduction in the welfare component is the longer period over which more recent retirees have paid taxes. A retiree in 1960, for instance, could only have contributed to Social Security for a maximum of twenty-three years, whereas a retiree in 1981 may have participated for as many as forty-four years. Now that the system is nearly mature, these windfalls from short earnings histories in covered employment will be smaller. Moreover, the percentage of payroll taxes has steadily grown, lowering the return on Social Security still further.

These transfers were initially accepted because a large pool of workers supported a relatively small recipient group. In 1940, for example, the ratio of covered workers to retirees was 300:1. This ratio radically declined in subsequent years: 16:1 in 1950; 4:1 in 1965; and 3.2:1 today. By the year 2030, this ratio may fall to 2:1, or still lower if the projected demographic trends prove to be too optimistic. As the worker to retiree ratio continues to fall, the burden on future generations will become increasingly greater.

Michael Boskin calculated the return on Social Security contributions that workers of various age groups in 1977 can expect to receive under current law, including tax increases already legislated but not yet implemented (see Table 4). He computed the amount each age cohort has paid (or will pay) into the OASI system, and then compounded each year's contributions by an interest rate. He then estimated the benefits each age group will collect over a lifetime. The return on contributions for most workers appears to be quite good. The average current

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17 This example is taken from D. Parsons and D. Munro, "Intergenerational Transfers in Social Security," in Michael Boskin, ed., The Crisis in Social Security: Problems and Prospects, (San Francisco: Institute for Contemporary Studies, 1977).

from the spouse's benefit. If a wife's earnings record entitles her to a benefit that is equal to or less than one-half of her husband's, she will get no return on her contributions at all. If she qualifies for more than the amount available from the spouse's benefit, her net gain is only the difference between her benefit and the benefit she could have received based on her husband's earnings record. It is unfair, moreover, to have working wives, who tend to come from lower-income households, subsidize benefit payments for non-working wives, who are more likely to come from higher-income households.

Finally, a family with two earners may receive less in benefits than a one-earner family with the same total family earnings. For example: in Family A both husband and wife earn an equal share of the family income, while in Family B the husband is the sole supporter. Assume that the two families have had equivalent yearly earnings and that all four individuals reach age 65 at the beginning of 1981. With AIMEs of $400, both husband and wife in Family A receive an annual benefit of $250.30 for a combined payment of $500.76. In family B, where only the husband has worked, both husband and wife receive a greater benefit -- his AIME entitles them to $378.38 per month plus 50 percent, or $189.19, for his spouse, for a total monthly retirement benefit of $567.57. Family B will receive an annual benefit $801.72 greater than Family A even though both families have presumably paid an equivalent amount in taxes.

Eliminating the spouse's benefit would reduce some of the anomalies in the current benefit structure. This benefit was created on the basis of the traditional family model of the 1930s when it appeared that most women would marry and that few would then participate actively in the labor force. This no longer holds today. Family structures and women's work patterns have changed tremendously since 1939, dramatically reducing women's dependence on their husbands. The number of married women working, for instance, has nearly tripled since 1940, yet the spouse's benefit remains and continues to discriminate against them.

One possible remedy is to treat each household as a single economic unit. For a married couple, the benefit earned by either would be divided equally among both. This would remove a large welfare element from Social Security.

Intergenerational Transfers

An inequity often overlooked in Social Security is the inherent subsidization of an older generation by a younger one. This has been defended on the grounds that elderly recipients are generally in need. Indeed, a common justification for Social Security is that it transfers money from a younger, wealthier generation of workers to an older and poorer generation of retirees. As a consequence, young, unskilled workers, struggling to make ends meet may be compelled to subsidize retired doctors, lawyers, and others who may be far better off than the workers themselves.

Security, however, resulted in a pay-as-you-go system. Contributions to the program are not saved and invested, but used to pay benefits to today's recipients. The consequences of this policy are now becoming apparent as the tax burden worsens and many more people begin getting lower returns on Social Security contributions than they otherwise would have been able to obtain in the market. It would have been far more efficient and equitable if the first generation of retirees had been taxed more than 2 percent of their earnings during their working years, and their benefit payments reduced to more accurately reflect their past contributions. Though this may have resulted in very low benefit payments in the program's early years, it would have equalized the return across generations. Those deemed to be in need could have been more appropriately cared for through means-tested welfare programs. Nevertheless, the first cohorts of retirees were allowed to collect benefits that were far in excess of anything "justified by their brief taxpaying experience."[18]

EFFICIENCY CONSIDERATIONS

Savings and Capital Formation

One harmful side effect of Social Security is the reduction in savings that results from the pay-as-you-go nature of its financing. As a result, funds available for capital formation are reduced, thereby depressing economic growth and national output.[19]

Social Security reduces private savings in two ways. First, Social Security payroll taxes lower disposable income, leaving individuals with less money to allocate for other purposes,

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[18] John A. Brittain, The Payroll Tax for Social Security (Washington, D.C.: The Brookings Institution, 1972), p. 9.

[19] There is still considerable debate on the nature and extent of the effect of Social Security on private saving and its corresponding impact on capital formation. For a more complete review see Robert J. Barro, The Impact of Social Security on Private Saving: Evidence from U.S. Time Series, with a reply by Martin Feldstein (Washington, D.C.: American Enterprise Institute, 1978); Michael Darby, The Effects of Social Security on Income and Capital Stock (Washington, D.C.: American Enterprise Institute, 1979); Martin Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," Journal of Political Economy, Vol. 82 (Sept.-Oct. 1974), pp. 905-926; Martin Feldstein, "Social Security, Induced Retirement, and Capital Accumulation: A Correction and Update," National Bureau of Economic Research, Working Paper 579, November 1980; and Alicia H. Munnell, The Effect of Social Security on Personal Saving (Cambridge, Massachusetts: Ballinger, 1975). The evidence that Social Security does not substantially retard saving remains weak. For an excellent critique of these alternative theories see Ferrara, op. cit., pp. 76-104.

Table 4

Old Age and Survivors Insurance: Relationship of Taxes Paid to Benefits Received (1977 Dollars)

	65+	64-55	54-45	44-35	34-25	Under 25
Average Tax/ Family	7,058	18,345	33,883	53,326	73,843	
Average Benefit/ Family	49,400	47,639	55,600	66,321	73,577	
Avg. Net Benefit/ Family	42,343	29,294	22,718	12,994	-267	large, negative
Avg. Net Benefit as % Tax/Family	600.0	160.0	67.0	24.4	-.36	
Total Taxes pd. by Cohort (billions)	172	235	349	389	540	552+
Total Benefits pd. to Cohort (billions)	1,282	629	570	473	503	
Transfers as % of Total Benefits	86.2	62.7	38.8	19.4	-7.39	large, negative

SOURCE: Michael J. Boskin, John B. Shoven, Marcy Avrin, and Kenneth Cone, "Separating the Transfer and Annuity Functions of Social Security," Department of Economics, Stanford University and National Bureau of Economic Research, p. 28.

retiree receives a net transfer of about $42,000 per family, an amount six times larger than what he paid in plus interest. The size of this return, however, will steadily decline for those retiring in the future. An average family of the 55-64 age cohort, for example, will receive a transfer amounting to only 1.6 times what it paid in plus interest. Workers in the 25-34 age cohort will be the first group as a whole to get a negative return on its Social Security contributions, albeit a relatively small loss. Indeed, the average tax paid by this group is ten times as high as that paid by those currently retired, yet their benefits are only one-and-a-half times as great. For those under the age of 25, the loss will be so great that Boskin simply lists it as "large" and "negative."

The threat of the Social Security system going bankrupt because of changing economic conditions and demographic shifts could have been avoided by a fully-funded system. Providing overly generous benefits during the start-up phase of Social

Security system has had an enormous adverse impact on the size of the nation's capital stock.

By decreasing saving, Social Security lowers the amount of money available for capital formation. In essence, this redistributes income from labor to owners of capital, as the relative scarcity of capital drives up its price, and the smaller capital stock leads to a decline in worker productivity -- which reduces per capita output and the real wage rate. This redistribution is particularly harmful to low-income workers, who rely heavily on wage income for support, whereas the wealthy typically receive a much larger share of their income through capital investment. Lower wages are also likely to contract the supply of labor by lowering the price of leisure relative to labor. Taken together, lower productivity and less employment lead to slower economic growth and a lower gross national product.

Labor Supply

The Social Security payroll tax also has a pronounced negative impact on labor supply because it drives a wedge between what an employer pays and what an employee receives as compensation. This wedge includes both the employee's and the employer's share of the tax since the burden of the tax is shifted completely to labor. According to a basic law of economics, employment is inversely related to the real wage rate, which is equal to the marginal productivity of labor. If one component of the real wage rises, another must fall if existing levels of employment are to be preserved. In other words, an employer is able to pass the burden of the payroll tax onto an employee by lowering his observed wage, thereby maintaining a constant real wage.

Even if employers cannot prevent the real wage from rising somewhat, labor still cannot evade the consequences of the tax. A rising real wage increases labor costs, thereby lowering employment opportunities. This simply shifts the burden to those either losing their jobs or those unable to find work. Moreover, by reducing a worker's disposable income, this wedge discourages employment. Consider an employee whose productive value enables him to command $10 an hour in the marketplace. Today, with a combined OASDHI tax rate of 13.3 percent, this individual will receive only $8.67 after deducting both the employer and employee portions of the tax.[22] By lowering compensation, the Social Security payroll tax precludes workers from receiving their full worth and induces some of them to drop out of the labor force as the price of leisure falls. New York attorney Peter Ferrara accurately characterized the consequences of the tax: "The payroll tax is essentially a tax on employment and as always the result of taxing something is that there is less of it."[23] This

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22 The size of this wedge may be somewhat smaller after taking into account the tax deductibility of the employer's share. This mitigates, but does not eliminate, the adverse effect on labor supply.

23 Ferrara, op. cit., p. 105.

including saving. The magnitude of this reduction depends on the marginal propensity to save.

More important, many individuals view their contributions to Social Security as a form of forced savings for retirement and are therefore likely to reduce the savings they otherwise would have accumulated for retirement. Savings may be depressed by the full amount of Social Security taxes. For example, consider an individual with an income of $10,000 a year who, without Social Security, might save 10 percent of his earnings for retirement.[20] With Social Security, he is forced to save more than the $1,000 he originally intended to save because he is required to pay a greater amount in Social Security payroll taxes. In this case, the net impact is likely to be a reduction on savings equal to the full $1,000. Because the government uses the contributions to pay current beneficiaries, there is no corresponding increase in savings to balance the resulting decline in savings. On the aggregate level, pay-as-you-go financing may lower savings on a dollar-for-dollar basis with Social Security contributions.

In an empirical study, Martin Feldstein estimated that Social Security had reduced personal savings by $55 billion in 1976.[21] With $95 billion in total private savings that year, this loss amounts to 58 percent of total actual private saving and a 37 percent reduction of the potential total private saving of $150 billion. That same year, employee and employer contributions to Social Security (OASI) amounted to $63 billion. Thus, the estimated $55 billion decline corresponds to 87 percent of private saving and supports the hypothesis that Social Security lowers private savings almost by the full amount of the tax.

Covered workers may think of their contributions to Social Security as part of their overall personal wealth. "Social Security wealth" can be defined as the present value of the annuity stream that an individual expects to receive in the future. It is fungible with ordinary wealth and allows one to reduce his own accumulation or personal wealth by an equal amount. Unlike ordinary wealth, however, Social Security wealth is not a tangible form of wealth. Rather, it is simply an implicit promise that the next generation will tax itself to pay the benefits that were promised by an earlier generation. Because Social Security wealth is not real, the amount of Social Security wealth represents the stock of personal wealth lost because of the program. Feldstein estimates the value of Social Security wealth in 1976 to have been $3,238 billion (in 1976 dollars). By inducing people to substitute Social Security wealth for real wealth, the Social

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20 This example is taken from Martin Feldstein, "Social Security," in Boskin, op. cit., p. 22.

21 Martin Feldstein, "Social Security, Induced Retirement, and Capital Accumulation: A Correction and Update," National Bureau of Economic Research, Working Paper 579, November 1980.

In lieu of changing the CPI or replacing it with a new index, President Reagan and other policymakers are considering a three-month deferral of cost-of-living increases for Social Security beneficiaries. Although this would result in large savings, it ignores the basic flaws of the CPI as an escalator.[24]

Raising the Retirement Age

Increasing longevity among the elderly and the trend toward early retirement have contributed greatly to the actuarial imbalance of Social Security by lengthening the period over which benefits are received and reducing the number of years during which taxes are paid into the system. When Social Security was originally conceived in 1935, the average retiree spent 12.8 years in retirement; now it is 16 years.[25] Moreover, this expected increase in longevity will extend the retirement period still further, thereby increasing the threat of insolvency. As a result, one of the most frequently discussed proposals under consideration is delaying retirement by raising the age at which full Social Security benefits are paid. This would help offset the projected reduction in the ratio of workers to beneficiaries. To allow those nearing retirement age sufficient time to adjust, this reform could be phased in gradually.[26].

Raising the retirement age for Social Security recipients can be justified for several reasons. First, medical advances not only have increased life expectancy, but also have enabled people to work longer. Second, a shift in employment from mining and manufacturing to trade and service jobs has reduced the proportion of the labor force in physically demanding and dangerous employment. Finally, the demand for higher education has effectively shortened the working years for many people by delaying their entrance into the labor force.

The primary disadvantage of raising the retirement age, however, is that it does not consider the special needs of the elderly who may not be able to postpone retirement for health reasons or other circumstances. This disadvantage can be avoided by allowing workers to retire at any age they choose and to receive actuarially fair benefits. Unfortunately, this may not be possible unless the transfer and annuity portions of Social

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24 For a detailed discussion of the CPI and indexing, see: Peter Germanis, "Adjusting the Consumer Price Index," Heritage Foundation Backgrounder No. 152, October 15, 1981.

25 President's Commission on Pension Policy, Coming of Age: Toward a National Retirement Income Policy, Washington, D.C., February 26, 1981, p. 23.

26 Representative J. J. Pickle (D-Tex.), Chairman of the Ways and Means Subcommittee on Social Security, and Senator Lawton Chiles (D-Fla.) have both introduced bills raising the retirement age gradually from 65 to 68. Rep. Pickle would implement this change from 1990 to 1999, while Sen. Chiles recommends that this be done from 2000 to 2012.

employment effect would largely be negated if individuals could receive actuarially sound returns on Social Security, but the return on Social Security is uncertain and only tenuously linked to past contributions. Moreover, as the system fully matures, the rate of return for an increasing number of people will fall below the market rate of return, which will further exacerbate the distortion of the wedge effect on labor supply.

When considered along with the labor supply effects of the earnings test, which reduces employment among those over 65, it is apparent that Social Security depresses employment, creates economic inefficiency by misallocating resources, and reduces total output. These problems of Social Security arise once again from Social Security's conflicting objectives of trying to be both an insurance and a welfare program.

AVENUES FOR REFORM

Indexing

One commonly discussed proposal to improve efficiency and equity within the Social Security system is to modify benefit indexation. Benefits are currently adjusted for inflation by indexing them to the Consumer Price Index (CPI). Use of the CPI, however, may improperly lead to excessive Social Security benefits if, as many economists assert, it overstates the true rate of inflation. One of the major flaws in the CPI is its treatment of homeownership. The CPI overstates housing costs by ignoring the investment value of the home. Other criticisms of the CPI include outdated buying patterns (determined in 1972-73), failure to account for consumer substitution when faced with higher prices, and limited applicability to certain subgroups, such as the elderly. In this connection, it should be noted that only a very small proportion of the elderly are in the housing market, a category heavily weighted in calculating the CPI. By exaggerating the inflation rate, the CPI may lead to the substantial overcompensation of Social Security recipients.

A "rental equivalence" (CPI X-1) index, now being developed by the Bureau of Labor Statistics, endeavors to circumvent some of the more serious problems connected with the housing component. This approach attempts to separate the consumption and investment motives in purchasing a home by using market rents as a proxy for the shelter services of a similar owner-occupied home.

Other economists have suggested using the Personal Consumption Expenditure (PCE) chain index on the National Income and Product Accounts. This index would be preferable to the CPI for several reasons: 1) its coverage is somewhat broader as it includes all goods and services currently produced for consumption; 2) it employs the rental equivalency approach used in computing the CPI X-1; and 3) it uses current consumption patterns rather than those determined in the 1972-73 survey period.

Mr. Smith, on the other hand, spent all his life as an employee of the federal government and earned a civil service pension of $1,500 per month. In addition, Mr. Smith qualified for Social Security benefits by working in covered employment in his spare time. With an AIME of $211, Mr. Smith also received a monthly annuity of $189.90 for Social Security. The progressive benefit structure was not intended to yield him such a generous award, yet he was allowed to take advantage of it.

This type of abuse of Social Security is not uncommon: approximately 45 percent of those receiving a civil service pension also get benefits under Social Security.[27] Universal coverage would greatly increase contributions by expanding the tax base while only gradually increasing disbursements. If mandatory coverage were to become effective January 1, 1982, for example, incremental revenues of over $100 billion could be realized by 1987, thereby providing immediate relief for the short-run financing problems.[28] This is possible in the short run because it would be many years before a sizable number of newly-covered workers would reach retirement. Although the long-term effects are not as significant, the Social Security Administration estimates that universal coverage could lead to a reduction in payroll taxes of 0.5 percentage points during the next seventy-five years.[29] The only way this proposal could improve the actuarial balance of Social Security, however, is by giving the newly-covered workers a "bad deal," and it is therefore sure to be resisted.

Spreading the burden to uncovered workers thus is not a solution to Social Security's problems. Its main advantage is that it points out the great need to separate the welfare component from the program so that no group is unfairly penalized by participating in the program. This would then make universal coverage a moot question.

Accounting Changes

Accounting adjustments may provide relief in the short run without altering either benefit payments or already scheduled tax rates.

Interfund borrowing would allow the three trust funds to borrow from one another whenever any runs short of funds. This

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27 Colberg, op. cit., p. 16.

28 Lowell Jones and Michael Romig, "Social Security Financing and Options for the Future," Statement of the Chamber of Commerce of the United States of America, July 10, 1981, p. 9.

29 U.S. Department of Health and Human Services, The Desirability and Feasibility of Social Security Coverage for State and Local Government and Private Non-profit Organizations, Report of the Universal Social Security Coverage Study Group (Washington, D.C., 1980), p. 47.

Security are separated because the cost of maintaining this flexibility would be more than the system could support. Reducing the number of years individuals can collect benefits may be a more politically feasible alternative than cutting benefits by eliminating the current welfare component.

Taxation of Benefits

Employees now pay income taxes on the part of their earnings also subject to the Social Security payroll tax; employer's contributions, however, are considered business expenses and thus escape taxation. Including half of all Social Security benefits in taxable income would approximate the current tax treatment of private pensions and benefits from other government programs. This measure would have few, if any, ramifications on the low income group since the tax code already has several provisions that take into account an individual's ability to pay, e.g., progressive tax rates, a zero-bracket amount, and a personal exemption that is doubled for those over 65. Excluding Social Security benefits from taxation simply helps those recipients with relatively high incomes. Although including half of Social Security benefits in taxable income would reduce the after-tax benefits for some recipients, it also could be viewed as a tax cut because it would reduce the need to raise payroll taxes in the future.

Universal Coverage

Universal coverage requires the extension of Social Security protection to all workers. At present some seven million workers are not covered -- primarily those permanent civilian employees of the federal government, employees of a number of state and local governments, and non-profit organizations choosing not to participate.

Making coverage compulsory for all workers would eliminate gaps in protection experienced by workers moving between covered and uncovered employment. These gaps arise because Social Security and most pension plans require a minimal period of employment before eligibility is established.

Universal coverage also would largely eliminate windfalls that accrue to individuals with short work periods in covered employment or those with low earnings histories arising from time spent in non-covered employment. Many of these people have qualified for benefits under other retirement plans and, despite being relatively well-off, receive unearned benefits designed to provide a subsistence income for workers with low lifetime wages. The following examples illustrate the present inadequacy.

Mr. Jones worked his entire life as an unskilled laborer and at age 65 retired with an AIME of $211, which entitled him to a monthly benefit of $189.90. Mr. Jones is the type of worker the weighted benefit formula was designed to assist.

cial assistance from welfare programs, they are, nevertheless, now receiving an implicit welfare subsidy through Social Security. There need be no stigma attached to receiving welfare. In any event, if the rest of the nation's needy citizens receiving assistance are obliged to recognize their plight, why should the elderly be exempted?

The final step in bringing about a comprehensive reform of Social Security is to make it voluntary and partially, if not completely, privatized. Some 60 percent of those surveyed in the Heritage poll feel that Social Security should be made voluntary; an even greater number believe that private pension alternatives could provide for retirement more efficiently. Though extensive analysis of such reform is beyond the scope of this paper, there are a few advantages to this option that are readily apparent.[30] There is no reason that government-approved private insurance alternatives cannot adequately provide for retirement or any of the other contingencies covered by Social Security. People could be given a choice of either continuing their participation in Social Security (without the welfare subsidy) or investing a portion of their income in private plans. This would greatly expand individual liberty by allowing people to choose from a variety of plans and to purchase the one best suited to their needs and desires. In addition, fully funded private plans would stimulate economic growth by reducing the adverse incentives for capital formation of the pay-as-you-go nature of the current system.

Although some of the reforms outlined in the preceding section of this paper might strengthen the financial soundness of Social Security, they do not address the main flaw of the program: its schizoid attempt to pursue both insurance and welfare objectives. Yet many ignore this flaw and oppose genuine reform. The National Commission on Social Security, for example, contends that Social Security is "sound in principle" and that any substantial changes would violate the implicit compact made between generations:

> Social Security is based upon a social compact between generations. Those who are retired depend for their benefits on those who are working, just as their taxes paid the benefits to those who came before them. For the younger generation, the deduction from their earnings for Social Security is justified by the understanding that the system will support them when they retire.[31]

This so-called compact, however, was made by a generation that is now reaping a tremendous windfall at the expense of the

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30 For a compendium of proposals to achieve these goals, see Ferrara, op. cit., pp. 311-397.

31 National Commission on Social Security, op. cit., p. 131.

change is aimed at augmenting the projected shortfall in the OASI fund, the largest of the three trusts, and would enable it to receive temporary transfers from the more solvent disability insurance (DI) and hospital insurance (HI) funds. Another alternative is to realign the proportion of the payroll tax going to each of the three trust funds. These reallocations may resolve the short-run financing problems, but fail to address the more serious and imminent underlying problems facing Social Security.

General Revenue Financing

One of the many nostrums advocated for curing the Social Security system of its financial ills is financing part or all of the program through general revenues. Through general revenues, goes the argument, part (or all) of the burden of the payroll tax would be shifted from the low wage worker, who can least afford a reduction in disposable income, to those in society better able to absorb the loss. This proposal, however, would further weaken the already tenuous connection between payments made into the system and benefits paid out, while substantially advancing its conversion to a pure welfare program. If the objective of this reform is to aid the poor, moreover, then this can be more efficiently achieved through other needs-related programs financed by general revenues such as the Supplemental Security Income (SSI) program, food stamps, and the Aid to Families with Dependent Children (AFDC) program. In particular, SSI provides a guaranteed level of income for the aged, blind, and disabled because it recognizes that Social Security alone may not be sufficient.

CONCLUSION

The key to establishing a fair and efficient retirement program is to eliminate the transfer function of Social Security altogether and pay benefits that are directly related to an individual's total contributions plus interest. This would require dropping the redistributive benefit structure, the spouse's benefit, the earnings test, and other features based on welfare principles. These often have led to paying substantial unearned benefits to those generally not considered needy. Continuing transfers without regard to need raises serious questions of equity, while further financially emasculating the Social Security system.

The destitute elderly would not be ignored. Instead, they would more appropriately be helped through needs-oriented programs, such as SSI and food stamps, which are financed from general revenues. Funding for these programs would have to be expanded, of course, but there could be enormous savings running probably into the tens of billions of dollars by precluding retirees who are not poor from receiving undeserved welfare benefits. A major objection to this reform, however, is that many of the elderly poor would be subject to "degrading" needs-related tests. Even though some of these people may feel embarrassed to accept finan-

up-and-coming generations. The obvious question is: Why should a younger generation be bound by a compact made without their consent and one that will yield them an unjustifiably low return in their retirement? Basing benefit payments on past contributions plus interest is the key to achieving a fair and efficient retirement program.

Peter G. Germanis
Policy Analyst

THE WHITE HOUSE

WASHINGTON

September 29, 1981

MEMORANDUM FOR: DONALD T. REGAN
DAVID A. STOCKMAN
MAX L. FRIEDERSDORF
E. PENDLETON JAMES

FROM: RICHARD G. DARMAN R.G.D.
CRAIG L. FULLER CF

SUBJECT: Task Groups -- Follow-Up Re: President's September 24 Address to the Nation

As you know, the program that the President announced on September 24 called for:

- a bi-partisan task force on Social Security to develop, by January 1983, a permanent solution to the problems facing the Social Security system;

- a task force to develop a non-Social Security entitlement reform package to be transmitted to Congress in the near future; and

- a revenue enhancement package to eliminate abuses and obsolete incentives in the tax code and to increase tax receipts by 3, 8, and 11 billion dollars in fiscal years '82, '83, and '84 respectively.

In order to assure prompt fulfillment of these commitments, we have reviewed possible assignments of lead responsibility with Ed Meese and Jim Baker, who have determined that implementation should proceed as follows:

	Subject	Task	Lead	Due Date
(1)	Social Security Task Force	Develop charter in consultation with Sen. Baker & Speaker O'Neill	Max Friedersdorf	October 5
		Propose Presidential Appointments and Chairman	Pen James et al.	October 19
		Develop Report in in accord with charter	Task Force Chairman (to be det.) et al.	January, 1983

	Subject	Task	Lead	Due Date
(2)	Entitlements Task Force	Develop entitlements package for review by Budget Review Board	Budget Review Board (co-chaired by Meese, Baker, Stockman) -- with staff group coordinated by Don Moran (OMB)	October 19
		Presidential review & decision		October 23
(3)	Revenue Enhancement	Develop revenue enhancement package for Cabinet & senior staff review	Cabinet Council on Economic Affairs -- with staff group chaired by Asst. Sec. Chapoton (Treas.)	October 19
		Presidential review & decision		October 23

Would you please take appropriate implementing actions in your respective areas of responsibility -- and please inform us of problems and progress as appropriate.

Thank you.

cc: E. Meese
J. Baker
T. Bell
J. Block
R. Donovan
S. Pierce
R. Schweiker
E. Dole
D. Gergen
E. Harper
M. Weidenbaum
R. Williamson

THE WHITE HOUSE

WASHINGTON

September 29, 1981

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MAX L. FRIEDERSDORF
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THE WHITE HOUSE

WASHINGTON

September 29, 1981

NOTE FOR: MAX L. FRIEDERSDORF

FROM: RICHARD G. DARMAN

SUBJECT: Bi-partisan Task Force on Social Security

Attached is a revised outline of a charter for the task force on Social Security. The revision incorporates suggestions received from White House staff and, as I understand it, from Howard Baker via Jim Baker.

I suggest that you use this as the basis for further discussion of this issue with appropriate parties, and in the meeting with the President.

cc: Ed Meese
Jim Baker

DRAFT 9/29/81

BI-PARTISAN TASK FORCE ON SOCIAL SECURITY

Composition

Fifteen (15) members in total, appointed as follows:

- -- Five (5) to be named by the Speaker of the U.S. House of Representatives -- of which not more than three shall be of the same party; and of which two shall be members of the U.S. House of Representatives, one from the majority party and one from the minority party, and three shall be distinguished private citizens; and
- -- Five (5) to be named by the Majority Leader of the U.S. Senate -- of which not more than three shall be of the same party; and of which two shall be members of the U.S. Senate, one from the majority party and one from the minority party, and three shall be distinguished private citizens; and
- -- Five (5) to be named by the President of the United States -- of which not more than three shall be of the same party; and of which two shall be members of the Executive Branch and three shall be distinguished private citizens. The Chairman shall be designated by the President from among the distinguished private citizens.

Purpose

The purposes of the Task Force are as follows:

- -- To review relevant analyses of the current and long-term financial condition of the Social Security trust funds -- and to identify problems which might threaten the long-term solvency of such funds;
- -- To clarify the nature of such problems;

-- To identify and analyze potential solutions to such problems -- solutions which would assure both the financial integrity of the Social Security System and the provision of appropriate benefits for those who deserve them;

-- To provide appropriate recommendations to the Executive and Legislative Branches through a public Report as noted below. To the extent possible and appropriate, such recommendations should be designed and advanced on a basis that is capable of commanding wide public support.

Report

The Task Force is to provide its analyses of problems and potential solutions -- along with appropriate recommendations -- in a public Report. Such Report shall be published in draft form, for comment, on January 1, 1983, and in final form on March 1, 1983 -- with a view toward necessary legislative consideration and action by the close of the first session of the 98th Congress.

Staffing/Funding/Admin. Provisions/Etc.

The heads of the departments, agencies and instrumentalities of the Executive Branch of the Federal government shall cooperate with the Task Force and shall furnish to the Task Force such information as the Task Force deems necessary to carry out its functions.

Members who are not officers or employees of the U.S., while attending conferences or meetings of the Task Force or while otherwise serving at the request of the Chairman shall be entitled to compensation at a rate not in excess of the maximum rate of pay for grade GS-18, including travel time and travel expenses, including per diem in lieu of subsistence.

There is authorized to be appropriated, for use in carrying out this section, not to exceed ____________. [$750,000 - $1,000,000??*]

*Note: A great deal of analytic work has already been done by public and private institutions. The Task Force will need funds only for secondary analyses.

PRELIMINARY DRAFT
RGD - 9/25/81

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Staffing/Funding/Admin. provisions/Etc.
(to be determined)

Document No. ________________

WHITE HOUSE STAFFING MEMORANDUM

DATE: Saturday 9/26/81 ACTION/CONCURRENCE/COMMENT DUE BY: Monday noon

SUBJECT: Social Security Task Force

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	HARPER	☐	☐
MEESE	☑	☐	JAMES	☐	☐
BAKER	☑	☐	MURPHY	☐	☐
DEAVER	☑	☐	NOFZIGER	☐	☐
STOCKMAN	☑	☐	WILLIAMSON	☐	☐
ALLEN	☐	☐	WEIDENBAUM	☐	☐
ANDERSON see comment	☑	☐	HICKEY	☐	☐
BRADY/SPEAKES	☐	☐	MC COY	☐	☐
CANZERI	☐	☐	CEQ	☐	☐
DOLE	☐	☐	OSTP	☐	☐
FIELDING see comments	☑	☐	USTP	☐	☐
FRIEDERSDORF see comments	☑	☐	ROGERS	☑	☐
FULLER *(For Cabinet)*	☑	☐	____________	☐	☐
GARRICK	☐	☐	____________	☐	☐
GERGEN	☐	☐	____________	☐	☐

Remarks:

You will recall that the President committed to this in his speech. Comments/Suggestions, please. We need to discuss this with O'Neill/Baker on Monday.

Richard G. Darman
Assistant to the President
and
Deputy to the Chief of Staff
(x-2702)

PRELIMINARY DRAFT
RGD - 9/25/81

BI-PARTISAN TASK FORCE ON SOCIAL SECURITY

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Staffing/Funding/Admin. provisions/Etc.
(to be determined)

THE WHITE HOUSE

WASHINGTON

September 24, 1981

Dear Howard:

You and I have already discussed the need to find an effective bipartisan approach to the problems facing the social security system -- and the desirability of establishing a Blue Ribbon Task Force to help. Consistent with our discussion, I have today invited the Speaker of the House to join with you and with me in the establishment of such a Blue Ribbon Task Force. For your information, I have enclosed a copy of the letter addressed to the Speaker.

As I mentioned to you this morning, I will refer to the need for this Task Force in my speech tonight. I look forward to working with you in the continuing quest for a responsible bipartisan solution to the social security problem.

Sincerely,

Ron

The Honorable Howard Baker
Majority Leader
United States Senate
Washington, D.C. 20510

THE WHITE HOUSE

WASHINGTON

September 24, 1981

Dear Mr. Speaker:

During the past eight months we have talked over many issues, sometimes agreeing and at other times having differences. But on matters of critical importance to the nation's basic security and well-being, we have been united in the belief that the good of the country must come before all else.

The critical need for legislative action to assure financial solvency of the social security retirement fund has reached an apparent state of impasse. The growing political discord over this matter is causing unnecessary apprehension among the 36 million Americans who depend upon social security, and threatens to impede a constructive solution.

Last spring, I proposed what I believe to be a fair, balanced and workable solution to the social security problem. However, it is now evident that there are so many proposals and so many different views of the problem that a comprehensive long-term solution is not possible in the immediate future.

I am therefore proposing that the Congress postpone action on my plan, and I request that you join me in an effort to reach a bipartisan solution.

The social security system is so fundamental to the fabric of our national life that we are obligated to maintain the long-existing national consensus about its management. I believe that two steps would help to reforge that consensus, and urge that you join me in the accomplishment of both:

> 1) the immediate passage of interfund borrowing authority so that the technical solvency of the OASI fund will be assured for the next several years; and

2) the establishment of a bipartisan Blue Ribbon Task Force, to which you, the Majority Leader of the Senate and I would each name five outstanding Americans. The Task Force would be asked to develop a consistent analysis of near-term and longer-term problems, options for their solution and recommendations for action by the Congress. Its work would be completed in the next one to two years.

Mr. Speaker, the problems facing the nation today provide more opportunities for partisan debate than either you or I would prefer. Under these circumstances let us agree that forty-five years of tradition and consensus are too valuable to be broken, and the welfare of 36 million Americans too important to be jeopardized, by legitimate differences over matters immediately at hand.

I look forward to your favorable response.

Sincerely,

Ronald Reagan

The Honorable Thomas P. O'Neill, Jr.
Speaker of the
House of Representatives
Washington, D.C. 20515

Document No. ____________

WHITE HOUSE STAFFING MEMORANDUM

DATE: Saturday 9/26/81 ACTION/CONCURRENCE/COMMENT DUE BY: Monday noon

SUBJECT: Social Security Task Force

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DEAVER	☑	☐	NOFZIGER	☐	☐
STOCKMAN	☑	☐	WILLIAMSON	☐	☐
ALLEN	☐	☐	WEIDENBAUM	☐	☐
ANDERSON	☑	☐	HICKEY	☐	☐
BRADY/SPEAKES	☐	☐	MC COY	☐	☐
CANZERI	☐	☐	CEQ	☐	☐
DOLE	☐	☐	OSTP	☐	☐
FIELDING	☑	☐	USTP	☐	☐
FRIEDERSDORF	☑	☐	ROGERS	☑	☐
FULLER *(For Cabinet)*	☑	☐	____________	☐	☐
GARRICK	☐	☐	____________	☐	☐
GERGEN	☐	☐	____________	☐	☐

Remarks:

You will recall that the President committed to this in his speech. Comments/Suggestions, please. We need to discuss this with O'Neill/Baker on Monday.

Richard G. Darman
Assistant to the President
and
Deputy to the Chief of Staff
(x-2702)

THE WHITE HOUSE

WASHINGTON

CABINET ADMINISTRATION STAFFING MEMORANDUM

DATE: Sept. 26, 1981 NUMBER: 018854CA DUE BY: CLOSE OF BUSINESS Mon., Sept. 28, 19

SUBJECT: Social Security Task Force

	ACTION	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☐	☐
State	☐	☐
Treasury	☑	☐
Defense	☐	☐
Attorney General	☐	☐
Interior	☐	☐
Agriculture	☐	☐
Commerce	☐	☐
Labor	☑	☐
HHS	☑	☐
HUD	☐	☐
Transportation	☐	☐
Energy	☐	☐
Education	☐	☐
Counsellor	☐	☐
OMB	☐	☐
CIA	☐	☐
UN	☐	☐
USTR	☐	☐
__________	☐	☐
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__________	☐	☐
__________	☐	☐

	ACTION	FYI
Baker	☐	☐
Deaver	☐	☐
Allen	☐	☐
Anderson	☐	☐
Garrick	☐	☐
Darman *(For WH Staffing)*	☐	☑
Gray	☐	☐
Beal	☐	☐
__________	☐	☐
__________	☐	☐
__________	☐	☐

Remarks:

You will recall that the President committed to this in his speech. Comments/Suggestions, please.

RETURN TO: Craig L. Fuller
Deputy Assistant to the President
Director,
Office of Cabinet Administration
456-2823

Document No. ____________

WHITE HOUSE STAFFING MEMORANDUM

DATE: Saturday 9/26/81   ACTION/CONCURRENCE/COMMENT DUE BY: Monday noon

SUBJECT: Social Security Task Force

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	HARPER	☐	☐
MEESE	☑	☐	JAMES	☐	☐
BAKER	☑	☐	MURPHY	☐	☐
DEAVER	☑	☐	NOFZIGER	☐	☐
STOCKMAN	☑	☐	WILLIAMSON	☐	☐
ALLEN	☐	☐	WEIDENBAUM	☐	☐
ANDERSON	☑	☐	HICKEY	☐	☐
BRADY/SPEAKES	☐	☐	MC COY	☐	☐
CANZERI	☐	☐	CEQ	☐	☐
DOLE	☐	☐	OSTP	☐	☐
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FRIEDERSDORF	☑	☐	ROGERS	☑	☐
FULLER *(For Cabinet)*	☑	☐	____________	☐	☐
GARRICK	☐	☐	____________	☐	☐
GERGEN	☐	☐	____________	☐	☐

Remarks:

You will recall that the President committed to this in his speech. Comments/Suggestions, please. We need to discuss this with O'Neill/Baker on Monday.

Looks good — may want to consider asking for final report by Dec. 31, 1982. There are now more completed studies than solutions — and it could then be said that the report will be done next year — MCA — 9/27/81

Richard G. Darman
Assistant to the President
and
Deputy to the Chief of Staff
(x-2702)

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

September 28, 1981

FOR: RICHARD G. DARMAN
ASSISTANT TO THE PRESIDENT AND
STAFF SECRETARY

FROM: FRED F. FIELDING FFF/by [illegible]
COUNSEL TO THE PRESIDENT

SUBJECT: Preliminary Outline of Bi-Partisan
<u>Task Force on Social Security Reform</u>

Our office has the following initial comments on your preliminary draft on the above-referenced task force:

-- Since the task force will prepare "advice or recommendations for the President or one or more agencies or officers of the Federal Government," and will not be "composed wholly of full-time officers or employees of the Federal Government," it will fall within the definition of "advisory committee" in section 3 of the Federal Advisory Committee Act, 5 U.S.C. App. I § 3. Hence, it will be subject to the various requirements of that Act, including holding open meetings and filing a charter before meeting or taking any action.

-- If, as seems likely, the task force will be created by Executive Order, it is doubtful that the President can legally compel the Speaker or the Senate Majority Leader to appoint persons to it. This simply underscores the need to obtain their agreement in advance to the idea and basic structure of the task force.

-- Section 608 of the most recent Executive Office appropriation, which continues in force under subsequent continuing appropriations resolutions, prohibits use of appropriated funds "to finance inter-departmental boards, commissions, counsels, committees, or similar groups" unless they "have prior and specific congressional approval of such method of financial support." It appears, on preliminary review of the outlined proposal, that the provision for Presidential appointment of two persons from "the Executive Branch" could make the task force an "inter-departmental" committee, such that specific Congressional approval would be required before appropriated funds could be used to finance it. This problem could be avoided by having the task force set up by Congress or (as is probably preferable) providing that the public members appointed by the President shall come from a specified agency within the Executive Branch, such as the Department of Health and Human Services.

-- The preliminary draft should be clarified on the point whether the President shall appoint the Chairman from among any of the private citizens on the committee or, as I assume you intend, from among the private citizens who are appointed by the President.

-- The Executive Order creating the task force should provide for no compensation of any sort for Representatives, Senators and Executive Branch members, and no compensation for private members other than travel, per diem in lieu of subsistence, and so forth.

As noted, these are of course preliminary comments, for your consideration prior to discussions with Speaker O'Neill and Majority Leader Baker. We will want to look closely at the proposed final Executive Order and other implementing documents. In the meantime, let me know if you have any questions or we can be of further assistance.

Document No. ______________

WHITE HOUSE STAFFING MEMORANDUM

DATE: Saturday 9/26/81 ACTION/CONCURRENCE/COMMENT DUE BY: Monday noon

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FRIEDERSDORF	☑	☐	ROGERS	☑	☐
FULLER *(For Cabinet)*	☑	☐	______	☐	☐
GARRICK	☐	☐	______	☐	☐
GERGEN	☐	☐	______	☐	☐

Remarks:

You will recall that the President committed to this in his speech. Comments/Suggestions, please. We need to discuss this with O'Neill/Baker on Monday.

Sen. Baker (Jim Cannon) called to request a meeting with the President & the Speaker to discuss the Commission. I recommend President meet with Sen. Baker & the Speaker asap.

MF
9-28-81

Richard G. Darman
Assistant to the President
and
Deputy to the Chief of Staff
(x-2702)

Document No. ______

WHITE HOUSE STAFFING MEMORANDUM

DATE: Saturday 9/26/81 ACTION/CONCURRENCE/COMMENT DUE BY: Monday noon

SUBJECT: Social Security Task Force

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GERGEN	☐	☐	______	☐	☐

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Richard G. Darman
Assistant to the President
and
Deputy to the Chief of Staff
(x-2702)

Final

BI-PARTISAN TASK FORCE ON SOCIAL SECURITY

Composition

Fifteen (15) members in total, appointed as follows:

-- Five (5) to be named by the Speaker of the U.S. House of Representatives -- of which not more than three shall be of the same party; and of which two shall be members of the House of Representatives (one from each party) and three shall be distinguished private citizens;

-- Five (5) to be named by the Majority Leader of the U.S. Senate -- of which not more than three shall be of the same party; and of which two shall be members of the Senate (one from each party) and three shall be distinguished private citizens; and

-- Five (5) to be named by the President of the United States -- of which not more than three shall be of the same party; and of which two shall be members of the Executive Branch and three shall be distinguished private citizens. The Chairman shall be designated by the President from among the private citizens.

G.R.F.

Purpose

The purposes of the Task Force are as follows:

-- To review relevant analyses of the current and long-term financial condition of the Social Security trust funds -- and to identify problems which might threaten the long-term solvency of such funds;

-- To clarify the nature of such problems;

-- To identify and analyze potential solutions to such problems -- solutions which would assure both the financial integrity of the Social Security System and the provision of appropriate benefits for those who deserve them;

-- To provide appropriate recommendations to the Executive and Legislative Branches through a public Report as noted below. To the extent possible and appropriate, such recommendations should be designed and advanced on a basis that is capable of commanding wide public support.

Report

The Task Force is to provide its analyses of problems and potential solutions -- along with appropriate recommendations -- in a public Report. Such Report shall be published in draft form, for comment, on January 1, 1983, and in final form on March 1, 1983 -- with a view toward necessary legislative consideration and action by the close of the first session of the 98th Congress.

Staffing/Funding/Admin. provisions/Etc.
(to be determined)

auth an approp. like Water Qual. Comm.

THE WHITE HOUSE

Office of the Press Secretary

FOR RELEASE AT 9:00 pm EDT SEPTEMBER 24, 1981

TEXT OF AN ADDRESS BY THE PRESIDENT
TO THE NATION

Shortly after taking office, I came before you to map out a four-part plan for national economic recovery:

- Tax cuts to stimulate more growth and more jobs;
- Spending cuts to put an end to continuing deficits and high inflation;
- Regulatory relief to lift the heavy burden of government rules and paperwork;
- And finally, a steady, consistent monetary policy.

We have made strong, encouraging progress on all four fronts. The flood of new governmental regulations, for example, has been cut by more than a third.

I was especially pleased when a bipartisan coalition of Republicans and Democrats enacted the biggest tax cuts and the greatest reduction in Federal spending in our nation's history. Both will begin to take effect a week from today.

These two bills would never have passed without your help. Your voices were heard in Washington, and were heeded by those you've chosen to represent you in government.

Yet, in recent weeks we've begun to hear a chorus of other voices protesting that we haven't had full economic recovery. These are the same voices that were raised against our program when it was first presented to Congress. Now that the first part of it has been passed, they declare it hasn't worked. Well it hasn't -- it doesn't start until one week from today.

There have been some bright spots in our economic performance these past few months. Inflation has fallen and pressures are easing on both food and fuel prices. More than a million more Americans are now at work than a year ago. And recently there has even been a small crack in interest rates.

But let me be the first to say that our problems won't suddenly disappear next week, next month or next year. We are just starting down a road that I believe will lead us out of the econonic swamp we've been in for so long.

It will take time for the effect of the tax rate reductions to be felt in increased savings, productivity and new jobs. It will also take time for the budget cuts to reduce the deficits which have brought us near runaway inflation and ruinous interest rates.

The important thing now is to hold to a firm, steady course.

Tonight I want to talk with you about the next steps that we must take on that course -- additional reductions in federal spending that will help lower our interest rates, our inflation and bring us closer to full economic recovery.

MORE

I know that high interest rates are punishing many of you -- from the young family that wants to buy its first home to the farmer who needs a new truck or tractor. But all of us know that interest rates will only come down and stay down when government is no longer borrowing huge amounts of money to cover its deficits.

These deficits have been piling up every year, and some people here in Washington just throw up their hands in despair. Maybe you'll remember that we were told in the spring of 1980 that the 1981 budget would be balanced. Well, that budget -- like so many in the past -- hemorrhaged badly and wound up in a sea of red ink.

I have pledged that we shall not stand idly by and see that same thing happen again. When I presented our eocnomic recovery program to Congress, I said we were aiming to cut the deficit steadily to reach a balance by 1984.

The budget bill that I signed this summer cut $35 billion from the 1982 budget and slowed the growth of spending by $130 billion over the next three years. We cut the government's rate of growth nearly in half.

Now we must move on to a second round of budget savings -- to keep us on the road to a balanced budget.

Our immediate challenge is to hold down the deficit in the fiscal year that begins next week. A number of threats are now appearing that will drive the deficit upward if we fail to act. For example, in the euphoria just after our budget bill was approved this summer, we didn't point out immediately that while we did get most of what we'd asked for, most isn't all. Some of the savings in our proposal were not approved; and since then, the Congress has taken actions that could add even more to the cost of government.

The result is that without further reductions, our deficit for 1982 will be increased by some $16 billion. The estimated deficit for '83 will be increased proportionately. And without further cuts, we can't achieve our goal of a balanced budget by 1984.

It would be easy to sit back and say, "Well, it will take longer than we thought. We got most of what we proposed, so let's stop there." But that's not good enough.

In meeting to discuss this problem a few days ago, Senator Pete Domenici of New Mexico, Chairman of the Senate Budget Committee, recalled the words of that great heavy-weight champion Joe Louis just before he stepped into the ring against Billy Conn. There had been some speculation that Billy might be able to avoid Joe's lethal right hand. Joe said, "Well, he can run but he can't hide."

Senator Domenici said to me, "That's just what we're facing on runway Federal spending. We can try to run from it but we can't hide. We have to face up to it."

He's right, of course. In the last few decades we started down a road that led to a massive explosion in Federal spending. It took about 170 years for the Federal budget to reach $100 billion. That was in 1962. It only took 8 years to reach the $200 billion mark and only 5 more to make it $300 billion. In the next 5 we nearly doubled that.

MORE

It would be one thing if we'd been able to pay for all the things government decided to do, but we've only balanced the budget once in the last 20 years.

In just the past decade, our national debt has more than doubled. And in the next few days it will pass the trillion dollar mark. One trillion dollars of debt -- if we as a nation need a warning, let that be it.

Our interest payments on the debt alone are now running more than $96 billion a year. That's more than the total combined profits last year of the 500 biggest companies in the country; or to put it another way, Washington spends more on interest than on all of its education, nutrition and medical programs combined.

In the past, there have been several methods used to fund some of our social experiments. One was to take it away from National Defense. From being the strongest nation on earth in the post WW II year we steadily declined, while the Soviet Union engaged in the most massive military buildup the world has ever seen.

Now with all our economic problems, we are forced to try to catch up so that we can preserve the peace. Government's first responsibility is national security, and we are determined to meet that responsibility. Indeed, we have no choice.

Well, what all of this is leading up to is -- what do we plan to do? Last week I met with the Cabinet to take up this matter. I'm proud to say there was no hand-wringing, no pleading to avoid further budget cuts. We all agreed that the "tax and tax, spend and spend" policies of the last few decades lead only to economic disaster. Our government must return to the tradition of living within our means and must do it now. We asked ourselves two questions -- and answered them: "If not us -- who? If not now -- when?"

Let me talk with you now about the specific ways that I believe we ought to achieve additional savings -- savings of some $16 billion in 1982 and a total of $80 billion when spread over the next three years. I recognize that many in Congress may have other alternatives, and I welcome a dialogue with them. But let there be no mistake: we have no choice but to continue down the road toward a balanced budget -- a budget that will keep us strong at home and secure overseas. And let me be clear that this cannot be the last round of cuts. Holding down spending must be a continuing battle for several years to come.

Here is what I propose.

<u>First</u>, I am asking Congress to reduce the 1982 appropriation for most government agencies and programs by 12 percent. This will save $17.5 billion over the next several years. Absorbing these reductions will not be easy, but duplication, excess, waste and overheard is still far too great and can be trimmed further.

No one asked to be exempt from belt-tightening. Over the next three years, the increase we had originally planned in the Defense budget will be cut by $13 billion. I'll confess, I was reluctant about this because of the long way we have to go before the dangerous window of vulnerability confronting us will be appreciably narrowed. But the Secretary of Defense assured me he can meet our critical needs in spite of this cut.

<u>Second</u>, to achieve further economies, we will shrink the size of the non-defense payroll over the next three years by some 6-½ percent -- some 75,000 employees. Much of this will be attained by not replacing those who retire or leave. There will, however, be some reductions in force simply because we are reducing our administrative overhead.

MORE

I intend to set the example here by reducing the size of the White House staff and the staff of the Executive Office of the President.

As a third step, we propose to dismantle two Cabinet departments -- Energy and Education. Both Secretaries are wholly in accord with this. Some of the activities in both of these departments will, of course, be continued either independently or in other areas of government.

There is only one way to shrink the size and cost of big government -- that is by eliminating agencies that are not needed and are getting in the way of a solution.

We do not need an Energy Department to solve our basic energy problem: as long as we let the forces of the marketplace work without undue interference, the ingenuity of consumers, businesses, producers and inventors will do that for us.

Similarly, education is the principal responsibility of local school systems, teachers, parents, citizen boards and state governments. By eliminating the Department of Education less than two years after it was created, we cannot only reduce the budget but ensure that local needs and preferences -- rather than the wishes of Washington -- determine the education of our children.

We also plan the elimination of a few smaller agencies and a number of boards and commissions, some of which have fallen into disuse or which are now being duplicated.

Fourth, we intend to make reductions of some $20 billion in Federal loan guarantees. These guarantees are not funds that the government spends directly; they are funds that are loaned in the private market and insured by government at subsidized rates. Federal loan guarantees have become a form of back-door, uncontrolled borrowing that prevent many small businesses -- that aren't subsidized -- from obtaining financing of their own. They are also a major factor in driving up interest rates. It is time we brought this practice under control.

Fifth, I intend to forward to Congress this fall a new package of entitlement and welfare reform measures -- outside Social Security -- to save nearly $27 billion over the next three years. In the past two decades, we have created hundreds of new programs to provide personal assistance. Many of these programs may have come from a good heart, but not all have come from a clear head. And the costs have been staggering. In 1955, these programs cost $8 billion. By 1965 the cost was $79 billion. Next year it will be $188 billion.

Let there be no confusion on this score. Benefits for the needy will be protected. But the black market in food stamps must be stopped. The abuse and fraud in Medicaid by beneficiaries and providers alike cannot be tolerated. Provision of school loans and meal subsidies to the affluent can no longer be afforded.

In California when I was Governor and embarked upon welfare reform, there were screams from those who claimed that we intended to victimize the needy. But in a little over three years we saved the taxpayer some $2 billion at the same time we were able to increase the grants for the deserving and truly needy by an average of more than 40 percent. It was the first cost of living increase they had received in 13 years. I believe progress can also be made at the national level.

MORE

We can be compassionate about human needs without being complacent about budget extravagance.

Sixth, I will soon urge Congress to enact new proposals to eliminate abuses and obsolete incentives in the tax code. The Treasury Department believes that the deficit can be reduced by $3.0 billion next year and $22 billion over the next three years with prompt enactment of these measures.

Now that we have provided the greatest incentives for saving, investment, work and productivity ever proposed, we must also ensure that taxes due the government are collected and that a fair share of the burden is borne by all.

Finally, I am renewing my plea to Congress to approve my proposals for user fees -- proposals first suggested last spring, but which have been neglected since.

When the Federal government provides a service directly to a particular industry or to a group of citizens, I believe that those who receive benefits should bear the cost. For example, this next year the Federal government will spend $525 million to maintain river harbors, channels, locks, and dams for the barge and maritime industries. Yacht owners, commercial vessels and the airlines will receive services worth $2.8 billion from Uncle Sam.

My spring budget proposals included legislation that would authorize the Federal Government to recover a total of $980 million from the users of these services through fees. That is only a third of the $3.3 billion it will cost the government to provide those same services.

None of these steps will be easy. We are going through a period of difficult and painful readjustment. I know that we are asking for sacrifices from virtually all of you. But there is no alternative. Some of those who oppose this plan have participated over the years in the extravagance that has brought us inflation, unemployment, high interest rates and an intolerable debt. I grant they were well intentioned but their costly reforms didn't eliminate poverty or raise welfare recipients from dependence to self-sufficiency, independence and dignity. Yet in their objections to what we've proposed they offer only what we know has been tried before and failed.

I believe we've chosen a path that leads to an America at work, to fiscal sanity, to lower taxes and less inflation. I believe our plan for recovery is sound and it will work.

Tonight I'm asking all of you who joined in this crusade to save our economy to help again. To let your representatives know that you'll support them in making the hard decisions to further reduce the cost and size of government.

Now if you'll permit me, I'd like to turn to another subject which I know has many of you very concerned and even frightened. This is an issue apart from the economic reform package we've just been discussing, but I feel I must clear the air. There has been a great deal of misinformation and for that matter pure demagoguery on the subject of Social Security.

During the campaign I called attention to the fact that Social Security had both a short and a long range fiscal problem. I pledged to do my best to restore it to fiscal responsibility without in any way reducing or eliminating existing benefits for those now dependent on it.

MORE

To all of you listening and particularly those of you now receiving Social Security, I ask you to listen very carefully: First to what threatens the integrity of Social Security and then to a possible solution.

Some thirty years ago, there were 16 people working and paying the Social Security payroll tax for every one retiree. Today that ratio has changed to only 3.2 workers paying in for each beneficiary.

For many years we've known that an acturial imbalance existed and that the program faced an unfunded liability of several trillion dollars.

The short range problem is much closer than that. The Social Security retirement fund has been paying out billions of dollars more each year than it takes in and it could run out of money before the end of 1982 unless something is done.

Some of our critics claim new figures reveal a cushion of several billions of dollars which will carry the program beyond 1982. I'm sure it's only coincidence that 1982 is an election year.

The cushion they speak of is borrowing from the Medicare fund and the disability fund. Of course doing this would only postpone the day of reckoning. Alice Rivlin of the Congressional Budget Office told a Congressional committee day before yesterday that such borrowing might carry us to 1990, but then we'd face the same problem. And as she put it we'd have to cut benefits or raise the payroll tax. Well we're not going to cut benefits and the payroll tax is already being raised.

In 1977 Congress passed the largest tax increase in our history. It called for a payroll tax increase in January of 1982, another in 1985, and again in 1986 and in 1990.

When that law was passed we were told it made Social Security safe until the year 2030. But we're running out of money 48 years short of 2030.

For more and more working Americans, the Social Security tax is already the biggest tax they pay. In 1935 we were told the tax would never be greater than 6% of the first $3,000 of earnings. It is presently 13.3% of the first $29,700 and the scheduled increases will take it to 15.3% of the first $60,600. And that's when Mrs. Rivlin says we would need an additional increase.

Some have suggested reducing benefits, others propose an income tax on benefits or that the retirement age should be moved back to age 68. And there are some who would simply fund Social Security out of general tax funds as welfare is funded. I believe there are better solutions.

I am asking the Congress to restore the minimum benefit for current beneficiaries with low incomes. It was never our intention to take this support away from those who truly need it. There is, however, a sizable percentage of recipients who are adequately provided for by pensions or other income and should not be adding to the financial burden of Social Security.

The same situation prevails with regard to disability payments. No one will deny our obligation to those with legitimate claims. But there is widespread abuse of the system which should not be allowed to continue.

Since 1962 early retirement has been allowed at age 62 with 80% of full benefits.

MORE

In our proposal we asked that early retirees in the future receive 55% of the total benefit. But, and this is most important, those early retirees would only have to work an additional 20 months to be eligible for the 80% payment. I don't believe very many of you were aware of that part of our proposal.

The only change we proposed for those already receiving Social Security had to do with the annual cost of living adjustment.

Those adjustments are made on July 1st each year, a hang over from the days when the fiscal year began in July. We proposed a one time delay in making that adjustment, postponing it for three months until October 1st. From then on it would continue to be made every 12 months. That one time delay would not lower your existing benefits but on the average would have reduced your increase by about $86 next year. By making these few changes we would have solved the short and long range problems of Social Security once and for all.

In addition we could have canceled the increases in the payroll tax by 1985. To a young person just starting in the work force the savings from cancelling those increases would, on the average, amount to $33,000 by the time he or she reached retirement. Add compound interest to this and it makes a tidy nest egg to add to the Social Security benefits.

However, let me point out our feet were never embedded in concrete on this proposal. We hoped it could be a starting point for a bi-partisan solution to the problem. We were ready to listen to alternatives and other ideas which might improve on or replace our proposals. But the majority leadership in the House of Representatives has refused to join in any such cooperative effort.

I therefore am asking, as I said, for restoration of the minimum payment and for interfund borrowing as a temporary measure to give us time to seek a permanent solution.

To remove Social Security once and for all from politics, I am also asking Speaker Tip O'Neill of the House of Representatives and Majority Leader in the Senate Howard Baker to each appoint five members and I will appoint five to a task force which will review all the options and come up with a plan that assures the fiscal integrity of Social Security and that Social Security recipients will continue to receive their full benefits.

I cannot and will not stand by and see financial hardship imposed on the more than 36 million senior citizens who have worked and served this Nation throughout their lives. They deserve better from us.

Now in conclusion, let me return to the principal purpose of this message -- the budget and the imperative need for all of us to ask less of government; to help us return to spending no more than we take in; to end the deficits and bring down interest rates that otherwise can destroy what we've been building here for two centuries.

I know that we are asking for economies in many areas and programs that were started with the best of intentions and a dedication to a worthwhile cause or purpose. But I know also that some of those programs have not succeeded in their purpose. Others have proven too costly, benefiting those who administer them, rather than those who were the intended beneficiaries.

This does not mean we should discontinue trying to help where help is needed. Government must continue to do its share, but I ask all of you as private citizens to join this effort, too.

MORE

As a people we have a proud tradition of generosity. More than a century ago a Frenchman came to America and later wrote a book for his countrymen telling them what he had seen here. He told them that in America when a citizen saw a problem that needed solving, he would cross the street and talk to a neighbor about it and the first thing you know a committee would be formed and before long the problem would be solved. "And then," he added, "you may not believe this but not a single bureaucrat would ever have been involved."

Some years ago when we were a young Nation and our people began visiting the lands of their forefathers, the American tourist was rather brash, unsophisticated by European standards but blessed with a spirit of independence and pride.

One such tourist, an elderly, small-town gentleman and his wife, were listening to a tour guide go on about the wonders of the volcano Mount Etna. He spoke of the great heat it generated, the boiling lava, etc. Finally, the old boy turned to his wife and said "we got a volunteer fire department at home -- put that thing out in 15 minutes."

He was typical of those Americans who helped build a neighbor's barn when it burned down. They built the West without an area redevelopment plan and cities across the land without federal planners.

I believe the spirit of volunteerism still lives in America. We see examples of it on every hand -- the community charity drive, support of hospitals and all manner of nonprofit institutions, the rallying around when disaster or tragedy strikes.

The truth is we've let government take away many things we once considered were really ours to do voluntarily out of the goodness of our hearts and a sense of community pride and neighborliness. I believe many of you want to do those things again, want to be involved if only someone will ask you or offer the opportunity. Well we intend to make that offer.

We are launching a nationwide effort to encourage our citizens to join with us in finding where need exists and then to organize volunteer programs to meet that need. We have already set the wheels of such a volunteer effort in motion.

As Tom Paine said 200 years ago: "We have it within our power to begin the world over again."

What are we waiting for?

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