5/2/77 [4]

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THE WHITE HOUSE
WASHINGTON
May 2, 1977

Stu Eizenstat

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: The Vice President
    Frank Moore
    Jody Powell
    Jack Watson

Re: Social Security Financing
Mr. President:

I recommend that you ask Sec'y Califano to postpone his testimony on social security reform to give you more time to consider it.

Stu thinks you will want to meet with your advisors on this subject, as you did with your welfare advisors yesterday, to discuss the issues at length. Kraft will doubtless advise that there is little time for this.

In addition to Summit preparation, you also have decisions to make on undocumented workers, environmental policy (which could also be postponed), noise pollution, and an integrity in government Message, among others, between now and Wednesday.

--Rick
Secretary Califano has sent you a memorandum outlining a set of proposals to deal with the acute financing problems of the social security system. This proposal has been reviewed by the Economic Policy Group (EPG) and several of its members have suggested alternatives to the HEW plan. OMB and Bob Ball have also reviewed the plan and provided memoranda. HEW is scheduled to testify on May 10 before the House Ways and Means committee to present the Administration's proposals. It is unfortunate that EPG, which decided this was an issue it should take up, has presented no indication of the economic impact of these alternatives.

We suggest that a meeting be arranged early next week for you to discuss these matters. We also suggest that we announce your program through a message to Congress.

THE PROBLEMS

The primary program issues have to deal with short-term and long-term finance. Closely allied to these issues are the questions of public confidence in the social security system and congressional expectations for the administration proposal.

Short-term finance -- The social security system is in reality three insurance systems with separate trust funds. The primary purpose of the trust funds is to protect the plans against an economic downturn which would reduce the revenue procured by the payroll taxes. Two of the three trust funds are rapidly being depleted due to the recent recession and increases in costs. Under current law the Old Age and Survivors Insurance (OASI) trust fund will decline from a year-end balance of $34.7 billion this year to a $12.7 billion balance by 1982. More serious is that the Disability Insurance (DI) trust fund will exhaust its entire balance by 1979 and will be $15.4 billion in debt by 1982.
The Hospital Insurance (HI) trust fund is not endangered and will, in fact, improve its financial position between now and 1982 under current law.

The issues which require your decision are how to prevent the exhaustion of the DI trust fund and how to build up the reserves in the OASI and DI trust funds to a level which would permit them to survive another recession.

Long-term finance -- The trustees of the social security trust funds (Secretaries Blumenthal, Califano and Marshall) are about to issue their annual report which will indicate that over a 75 year period the system is underfunded by 8.2 percent of covered payroll. This is slightly worse than last year and immense overall. One-half of this amount can be accounted for by demographic changes expected to occur over the next seventy-five years. The other half is due to an error in the benefit adjustment mechanism which vastly increases benefits over time.

The decisions you need to make relate to correcting the flaw in the benefit adjustment mechanism and finding a way to finance the apparently unavoidable increase in the size of the aged population.

Public confidence -- The major impetus for a major social security financing decision now is a desire to reassure the public of the soundness of the system. Although it would be possible to put off any decision for a year it would be at the risk of increasing anxiety among those who receive benefits as well as those who are paying into the system.

Congressional expectations -- The key committees are anxious to deal with social security in the near future. Senator Long has indicated that he would like to solve both the short and long-term financing problems this year. It is their hope that the Administration will submit such a proposal in order to take the burden off of the committees in making the hard choices. If we do not make our proposal now, Congress may well proceed.

PROPOSALS

SHORT-TERM FINANCING

Four options have been suggested for generating the revenue necessary to finance the OASDI programs between now and 1984. The possible sources of such revenue could include increases in the tax rate or wage base; shifting of funds between the trust funds; use of general revenues; or savings in the current program. Three of the four options contemplate the use of substantial sums of general revenue.
HEW Proposal

The HEW proposal is predicated on three assumptions. One is that the DI trust fund should not be permitted to be exhausted. Second is that the equivalent of a 50% reserve should be maintained in the OASDI combined trust funds. Third is that any funds raised by the payroll tax should be obtained primarily by increases in the wage base, rather than through increases in the tax rate.

HEW proposes instituting a temporary countercyclical general revenue mechanism to replace funds lost to the trust funds during the current economic downturn by unemployment in excess of 6%. The mechanism requires transferring $14 billion of general revenue over a three-year period. This mechanism plus a 35% cash reserve is said to be the equivalent of a 50% trust fund reserve.

HEW indicates that because the general revenue payments will be used by the trustees to purchase government bonds the transaction will have no impact on the unified budget deficit. OMB acknowledges this but points out that other alternatives, such as raising taxes or reducing benefits, would reduce the overall unified deficit.

HEW also proposes to remove the limit on wages subject to tax for employers only. This step is consistent with your campaign statement and with a policy of relying on increases in the wage base rather than tax increases. It is novel because it breaks the historical 50-50 sharing of the cost of the system as between employers and employees. Employer opposition to such a move should be moderated by the realization that if the employee wage base is increased the employee will qualify for more benefits in the future.

The balance of the HEW proposal involves maintaining tax increases already in the law: shifting revenues from the OASI tax to DI; small increases in the tax rates in 1979 and 1981; increasing the tax rate for the self-employed; and instituting a new dependents benefit eligibility test.

OMB notes that the HEW plan does not incorporate the effect of legislative changes encompassed in the FY 1978 budget which amount to a savings of $10 billion. Bob Ball suggests that the increases in the tax rate can be avoided by a shift of some of the revenue from the HI tax.

OMB Proposal

OMB does not believe that a commitment to major tax increases on employers or to the provision of large sums of general revenue funds is necessary at this time. They would prefer a more modest plan accepting a lower trust fund reserve ratio.
This is based on the enactment of $10 billion in savings proposed in budgets through FY 1978; a transfer of funds from the OASI trust fund to DI; a reallocation of some HI revenue; and an acceleration of deposits of social security contributions by states. This plan is submitted as illustrative of an alternative which could be more fully developed given more time. We believe there is no chance that this option would be accepted by Congress.

CEA Proposal

The EPG memo indicates that the CEA suggests a plan which would call for $56 billion in general revenue contributions between 1978 and 1982. Part of this money would be used by a countercyclical device, like that proposed by HEW, to compensate for recessions. The tax devoted to the Hospital Insurance trust fund would be partially diverted to OASDI and up to 50% of the HI program would be funded by general revenue. This proposal has not been fully developed or analyzed by others and would require further time.

Commerce Proposal

The EPG memo also indicates that the Commerce Department would favor the HEW countercyclical device, along with using general revenue to fund the OASDI programs until the general revenue share equalled one-third of the total cost. This would require $56 billion in general revenue contributions by 1982. This proposal also has not been fully developed and would require further time.

DECISION ON SHORT-TERM FINANCING

1. HEW Proposal. This proposal is supported by HEW, HUD, Treasury and Labor. Bob Ball also supports this proposal with small modifications. We recommend that you select this option. Jack Watson agrees.

   Approve

2. OMB Proposal. This proposal is supported by OMB.

   Approve

3. CEA Proposal. This proposal is supported by the CEA and Labor.

   Approve

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for Preservation Purposes
4. Commerce Proposal. This proposal is supported by the Commerce Department.

Approve ________

5. Other Instructions:

LONG-TERM FINANCING

HEW Proposals

The HEW plan proposes to seek a simple decoupling of the benefit adjustment mechanism to end the overcompensation for inflation in the current law. This is the solution recommended by the Social Security Advisory Council and the Ford Administration. This means that the wage replacement rate -- the ratio of benefits to previous wages -- would be held constant at its 1975 rate of approximately 44%. They would also bring forward from the year 2011 to 1990 a tax increase in current law. These steps, in conjunction with the short-term financing proposals, reduce the overall system deficit to 2%. HEW would give a mandate to the 1978-79 Advisory Council to examine how the remaining deficit should be reduced.

HEW points out that there are two proposals which would eliminate the remaining deficit by reducing the wage replacement rate. One would hold the rate constant for 15 years and then reduce the rate. This virtually eliminates the deficit and permits taking another look 15 years hence when the demographic situation should be better understood. The other proposal was developed by consultants to the congressional committees and would reduce replacement rates beginning immediately. Chairman Long agrees with this proposal.

Bob Ball states his strong opposition to any proposal suggesting reducing the wage replacement rate. He believes it is unnecessary and can be avoided by other measures.

OMB points out that the manner in which the HEW decoupling would work raises short-term costs by almost $2 billion by 1982. They suggest that these costs can be reduced by adjustments in the HEW proposal.
DECISION ON LONG-TERM FINANCING

The HEW proposal on dealing with decoupling has general support. HEW, HUD, CEA, Treasury, Labor and OMB agree. We recommend that you accept the HEW proposal for a constant replacement rate and charge the Advisory Council with examining the question of how to reduce the remaining part of the long-term deficit. We also recommend that you ask HEW to meet with OMB to see if their proposal can be modified to reduce the short-term costs. Watson agrees.

Approve ☑ Disapprove
HEW MEMO
MEMORANDUM FOR THE PRESIDENT

SUBJECT: SOCIAL SECURITY FINANCING

The two social security cash benefit programs, Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) face three separate but related problems, all of critical importance:

1. Short-term Financing. Unless remedial action is taken
   - The Disability Insurance fund will be exhausted in late 1978 or early 1979
   - The Old-Age and Survivors Insurance fund will be exhausted in 1983

2. Long-term Financing. For two reasons, these funds face additional and continuing long-run problems
   - Inflation Overadjustment. A faulty mechanism for adjusting benefits for inflation is causing the benefits of future retirees to rise more rapidly than their preretirement wages. This is producing unintended benefit increases and driving up costs without financing them. Eventually, many retirees' benefits will exceed their preretirement earnings.
   - Demographic Shifts. The recent decline in the birth rate will cause the ratio of retired to active workers to rise in the 21st century, adding dramatically to long-term unfinanced costs.

3. Structural Issues. Many features of the current social security benefit structure urgently need reexamination and revision, including the progressivity of the benefit formula, the treatment of one- and two-earner households, the retirement age, and the system's financing mechanisms.

These problems must be addressed promptly in order to restore public confidence in the integrity of social security and prevent exhaustion of the trust funds.
The Trustees Report on the financing problems is being completed next week, and I am scheduled to begin administration testimony on social security before Ways and Means on Tuesday, May 10. We are also attempting to discuss the general character of the recommendations with Senators Long and Nelson and Representatives Ullman and Burke this week. We will need your decisions early next week before you leave for Europe.

SHORT-TERM FINANCING

Proposals to finance social security through the traditional payroll tax mechanism require withdrawing $114 billion from the economy over the next 5 years. Allowing presently scheduled Medicare Hospital Insurance (HI) tax rate increases to go into effect in 1978 and 1981 reduces the additional funding required to $80 billion.

As a first step in restoring confidence in social security, we propose to raise the required $80 billion by:

1. Instituting a Counter-cyclical General Revenue mechanism, that would compensate the trust funds for payroll tax receipts lost as a result of unemployment in excess of six percent. This mechanism reduces the new payroll taxes required by
   - providing $14 billion in general revenue transfers when made retroactive to 1975
   - allowing us to maintain a substantially lower trust fund reserve than would be required using traditional payroll tax financing mechanisms, and doing so without sacrificing protection against a future recession. The lower reserve reduces the required new revenues by $24 billion.

This mechanism will not change the unified budget deficit or affect the economy.

Although we believe it to be a sound permanent financing device, this use of general revenues significantly departs from past practice. We therefore propose that this technique be employed only until the next Social Security Advisory Council can consider whether to make it permanent.
2. Removal of Limit on Earnings Subject to Tax for Employer Only. We propose to phase this increase in over three years: one-third in 1979; another third in 1980; and the remainder in 1981. Between now and 1982, this change will raise $30 billion for social security, leaving $12 billion to be achieved through other means.

This device would produce the major portion of the required payroll tax revenues through an earnings base increase. However, it avoids the adverse consequences of traditional base increases by keeping a limit on employee earnings subject to tax thereby not increasing future benefit obligations.

3. The Remaining features of our proposal are:

-- Retaining the Hospital Insurance (HI) tax rate increases already legislated for 1978 and 1981

-- Shifting revenues from OASI to DI in 1978 to avoid exhaustion of the DI fund

-- Increasing employer and employee tax rates each by 0.05 percentage points in 1979 and by another 0.05 percentage points in 1981

-- Increasing the limit on earnings subject to the employee tax by $600 in 1979 and $600 in 1981 above the levels produced by the normal automatic adjustment

-- Increasing the tax rate on the self-employed from 7 percent to 7.5 percent. This restores the historical relationship (1-1/2 to 1) between the OASI and DI rates paid by the self-employed and those paid by employees

-- Instituting a new eligibility test for dependents' benefits to offset the effect of recent Supreme Court decisions

In summary, our proposal involves

-- retaining the scheduled HI rate increases -- $33 billion

-- counter-cyclical general revenues -- $38 billion

-- removing employer earnings base -- $30 billion

-- remaining items -- $12 billion

Projections of the status of the OASI, DI, and HI trust funds under present law are shown at Tab A. The effect of the adoption of this proposal is shown at Tab B.
Consultations with Outside Groups

We have discussed this problem with organized labor, spokesmen for the elderly, spokesmen for business, the key committees in Congress, and the outside "high priests" of social security.

-- Organized labor, advocates for the elderly, and key individuals (such as Robert Ball and Wilbur Cohen) support the HEW proposal. Support of these individuals and organizations is essential for any plan for financing social security.

-- The business community, which has consistently opposed any use of general revenues, will be uneasy with our proposal for counter-cyclical general revenues. For that reason, we have carefully circumscribed the amount of general revenues used and the rationale for their use.

-- Many employers can be expected to oppose removal of the earnings limit.

Despite some opposition from business, in our opinion, the advantages of our plan outweigh the arguments that might be made against it because:

-- It limits the tax burden for workers

-- It is in keeping with your campaign statements about solving the short-run social security problem through increasing the earnings base rather than the payroll tax rate

-- It avoids significantly increasing future benefit entitlements, thereby
  o Reducing the future burden that both employees and employers might otherwise have to bear
  o Maintaining the opportunity for private pension development

Discussions within the Administration have revealed several objections to our proposal, particularly to the increase in the employers' earnings base. Three alternatives to our proposal have surfaced recently:

-- creation of borrowing authority for social security, advanced by OMB
Page 5 - Memorandum for the President

-- transferring payroll tax revenues from HI to OASI and DI and financing one-half of HI through general revenues, advanced by CEA

-- infusion of additional general revenues by moving toward permanent general revenue financing of a significant share of social security, advanced by the Department of Commerce

A discussion of these alternatives and of alternatives which represent the traditional approach to social security financing is found at Tab. C.

Our short-run proposals represent substantial innovation and will bring criticism, not only from Republicans but also from some Democrats, but they are, in our judgment, less vulnerable than any of the suggested alternatives. They bring real tax money and resulting credibility into the short-run financing solution. The alternatives suggested to date all simply put the problem off into the mid-1980s and are more difficult to defend against charges of using large amounts of general revenue "funny money."

We recommend the adoption of our proposal.

Approve ____ Disapprove ____

LONG-RUN FINANCING

The 1977 Trustees Report, now in preparation, will show a 75-year deficit of 8.2 percent of payroll. As mentioned above, this deficit is caused largely by (1) the inflation overadjustment and (2) the shifting age structure of the population.

Correcting the Inflation Overadjustment--Decoupling

There is a general consensus that, at a minimum, the inflation over-adjustment in social security must be cured. This is accomplished by what is generally called "decoupling," the separation of the adjustment of benefits for currently retired workers from the adjustment of initial benefits for future retirees.

We have considered many different ways of decoupling. Adoption of any of these options will reduce the long-run deficit; some will eliminate it.
We believe that three options deserve your attention.

1. **Advisory Council Model.** This option keeps replacement rates -- the ratio of workers' initial benefits to their preretirement wages -- constant at their 1979 level. Future retirement benefits would grow as fast as preretirement living standards. It was proposed by the 1974-1975 Social Security Advisory Council and endorsed by the Ford Administration.

   *This option has broad political support -- particularly from organized labor; its adoption would fulfill your major campaign commitment in this area.*

   Together with our short-run financing package, it reduces the long-run deficit to 2.5 percent of payroll.

   Its chief drawback is that it leaves a sizable deficit to be dealt with through subsequent action.

2. **Replacement Rates Constant for Fifteen Years, Declining Thereafter.** This option maintains replacement rates at 1979 levels until 1994. Thereafter, benefits would grow more rapidly than prices but not as rapidly as wages, so that replacement rates would decline.

   This option provides constant replacement rates for retirees over the next 15 years, but provides flexibility in dealing with the age shift problem. If present demographic projections turn out to be overly pessimistic, the scheduled decline in replacement rates can be moderated or eliminated in the mid-1990s. If they do not, the tax consequences of holding replacement rates constant can be dealt with in a more certain factual setting.

   Together with our short-run package, it reduces the deficit to 0.4 percent of payroll.

   This option would be difficult to sell politically without a lengthy preliminary public education program, since it would be characterized by some as a serious deliberalization.

3. **House/Senate Consultants Option.** This plan, proposed by consultants to the House Ways and Means and Senate Finance Committees, introduces gradually declining replacement rates upon implementation. With our short-run financing proposal, it would produce a small actuarial surplus.

   Although some support for this option may exist in the Senate Finance Committee, there is clearly little support elsewhere. This plan is anathema to organized labor, senior citizens groups, and other social security advocates.
Estimates of the effect of each of these three proposals on future benefit levels and future costs may be found at Tab D.

Other Long-run Financing Considerations

Option 1 and Option 2 do not completely solve the long-run financing problem, since both leave unfinanced deficits. Moving the tax rate increase of 2 percentage points (one point on employer and employee each) presently scheduled for the year 2011 to the year 1990 would further reduce the long-run deficit by about 0.5 to 0.6 percent of payroll.

Recommendation

We join with Charles Schultze and others who believe that Option 2 is ultimately more desirable than Option 1. But almost everyone involved believes that we will risk losing decoupling altogether if we try to go this far in the current session of Congress.

To fulfill your campaign commitment and because there is a clear political consensus behind doing at least this much now, we recommend that the Administration propose a decoupling plan with constant replacement rates, following Option 1, the Advisory Council Model.

In conjunction with this, we also recommend that the 2011 tax rate increase be moved to the year 1990.

In combination with the short-run package we have proposed, adoption of these recommendations will reduce the long-run deficit to 2.0 percent.

Dealing with the Population Shift and Other Problems

We propose that the next Social Security Advisory Council be instructed to reexamine the entire structure of social security benefits, and develop a plan to eliminate the remaining long-run deficit. As part of this process, they should consider the adoption of decoupling Option 2.

There are a number of difficult choices to be made when such a task is undertaken. Public understanding and discussion of these issues and of their possible solutions is needed before the Administration goes forward with proposed corrective actions.

We suggest, therefore, that the 1978/79 Advisory Council, which is already established in law, but which is yet to be appointed, be used for this purpose.
Taken together, these recommendations represent major financing innovations in social security, and they will not be approved easily or quickly. They will be attacked in the Congress as too much and too little, as too early and too late. But they have the support and understanding of the major social security constituencies, they are responsible, and they are in keeping with your views and commitments as expressed during the campaign.

We recommend the adoption of our entire long-run package consisting of:

- adoption of the Advisory Council decoupling option
- shifting the 2011 tax rate increase to 1990
- referring the remaining issues to the next Advisory Council

Approve _____  Disapprove _____

Joseph A. Califano, Jr.
### TABLE 1. Status of the Social Security Trust Funds:
RECENT HISTORY AND PROJECTIONS OF CURRENT LAW
USING PROPOSED 1977 TRUSTEES REPORT ASSUMPTIONS

<table>
<thead>
<tr>
<th>Year</th>
<th>Combined Tax Rate</th>
<th>Earnings Base</th>
<th>Change in Combined Trust Funds</th>
<th>Ending Trust Funds Reserve</th>
<th>Ratio*</th>
<th>Combined Tax Rate</th>
<th>Beginning Reserve Ratio*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>9.9%</td>
<td>$13,200</td>
<td>$ + 1.5</td>
<td>$ 45.9</td>
<td>73</td>
<td>1.8%</td>
<td>69</td>
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<tr>
<td>1975</td>
<td>9.9</td>
<td>14,100</td>
<td>- 1.5</td>
<td>44.3</td>
<td>66</td>
<td>1.8</td>
<td>79</td>
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<tr>
<td>1976</td>
<td>9.9</td>
<td>15,300</td>
<td>- 3.2</td>
<td>41.1</td>
<td>57</td>
<td>1.8</td>
<td>77</td>
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</table>

**Projected**

<table>
<thead>
<tr>
<th>Year</th>
<th>Combined Tax Rate</th>
<th>Earnings Base</th>
<th>Change in Combined Trust Funds</th>
<th>Ending Trust Funds Reserve</th>
<th>Ratio*</th>
<th>Combined Tax Rate</th>
<th>Beginning Reserve Ratio*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>9.9</td>
<td>16,500</td>
<td>- 5.6</td>
<td>35.2</td>
<td>47</td>
<td>1.8</td>
<td>66</td>
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<tr>
<td>1978</td>
<td>9.9</td>
<td>17,700</td>
<td>- 6.9</td>
<td>22.6</td>
<td>36</td>
<td>2.2</td>
<td>55</td>
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<tr>
<td>1979</td>
<td>9.9</td>
<td>18,900</td>
<td>- 7.9</td>
<td>20.7</td>
<td>27</td>
<td>2.2</td>
<td>56</td>
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<tr>
<td>1980</td>
<td>9.9</td>
<td>20,400</td>
<td>- 9.1</td>
<td>11.6</td>
<td>18</td>
<td>2.2</td>
<td>53</td>
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<tr>
<td>1981</td>
<td>9.9</td>
<td>21,900</td>
<td>-11.5</td>
<td>0.1</td>
<td>9</td>
<td>2.7</td>
<td>45</td>
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<tr>
<td>1982</td>
<td>9.9</td>
<td>23,400</td>
<td>-14.3</td>
<td>-14.8</td>
<td>0</td>
<td>2.7</td>
<td>50</td>
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*Ratio of trust fund at beginning of year to expenditures during year.
### TABLE 2.


<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Old-Age and Survivors Insurance</th>
<th>Disability Insurance</th>
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<tbody>
<tr>
<td></td>
<td>Change in Trust Fund Fund Balance (billions)</td>
<td>Ending Trust Fund Balance (billions)</td>
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<tr>
<td><strong>Historical</strong></td>
<td></td>
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</tr>
<tr>
<td>1974</td>
<td>$+1.3</td>
<td>$37.8</td>
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<tr>
<td>1975</td>
<td>$-0.8</td>
<td>37.0</td>
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<tr>
<td>1976</td>
<td>$-1.6</td>
<td>35.4</td>
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<tr>
<td><strong>Projected</strong></td>
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<td></td>
</tr>
<tr>
<td>1977</td>
<td>$-3.2</td>
<td>32.2</td>
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<tr>
<td>1978</td>
<td>$-4.1</td>
<td>28.2</td>
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<tr>
<td>1979</td>
<td>$-4.4</td>
<td>23.8</td>
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<tr>
<td>1980</td>
<td>$-4.5</td>
<td>19.3</td>
</tr>
<tr>
<td>1981</td>
<td>$-6.7</td>
<td>12.7</td>
</tr>
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</table>

* Ratio of trust fund at beginning of year to expenditures during year.

** The disability insurance trust fund is exhausted in 1979.
EFFECT OF OASDI FINANCING PLAN PROPOSED BY HEW

<table>
<thead>
<tr>
<th>Year</th>
<th>Old-Age, Survivors and Disability Insurance, Combined</th>
<th>Hospital Insurance</th>
<th>OASDI</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Earnings Base</td>
<td>Ad Hoc Base Increase</td>
<td>Combined Tax Rate (billions) Reserve Ratio</td>
</tr>
<tr>
<td>1977</td>
<td>16,500</td>
<td>--</td>
<td>9.9 % $ -5.6 47 %</td>
</tr>
<tr>
<td>1978</td>
<td>17,700</td>
<td>--</td>
<td>10.1(c) +0.5 36</td>
</tr>
<tr>
<td>1979</td>
<td>19,500(a)</td>
<td>+$600</td>
<td>10.1 +1.1 34</td>
</tr>
<tr>
<td>1980</td>
<td>21,000</td>
<td>--</td>
<td>10.1 +3.4 31</td>
</tr>
<tr>
<td>1981</td>
<td>23,100(b)</td>
<td>+600</td>
<td>10.3(d) +5.4 31</td>
</tr>
<tr>
<td>1982</td>
<td>24,600</td>
<td>--</td>
<td>10.3 +4.7 33</td>
</tr>
<tr>
<td>1983</td>
<td>.</td>
<td>.</td>
<td>. . . . . . . . . . .</td>
</tr>
</tbody>
</table>

# Beginning of year balance as a percent of year's expenditures.

(a) Earnings base phased out for employers starting in 1979. Earnings base for employees would have been $18,900 without ad hoc increase.
(b) Earnings base for employees would have been $22,500 without ad hoc increase.
(c) Increase due to reallocation of 0.2 percentage points of HI tax rate.
(d) Increase of 0.1 from additional payroll tax levies and additional reallocation of 0.1 from HI tax rate.

### Source of Additional Revenues Produced by HEW Financing Proposal

__(billions of dollars)__

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in Trust Funds, Proposal</th>
<th>Removing Cyclical Base for Old-Age, Survivors, and Disability Insurance</th>
<th>Increasing Revenues Base for Current Law</th>
<th>Reallocating Part of Interest HI Rate</th>
<th>Added Trust Funds, Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>- 5.6</td>
<td>--</td>
<td>+ 5.5</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1978</td>
<td>- 6.9</td>
<td>--</td>
<td>+ 3.6</td>
<td>+ 1.0</td>
<td>+ 0.2</td>
</tr>
<tr>
<td>1979</td>
<td>- 7.9</td>
<td>+ 2.1</td>
<td>+ 0.4</td>
<td>+ 1.5</td>
<td>+ 0.8</td>
</tr>
<tr>
<td>1980</td>
<td>- 9.1</td>
<td>+ 5.0</td>
<td>+ 1.5</td>
<td>+ 1.1</td>
<td>+ 1.6</td>
</tr>
<tr>
<td>1981</td>
<td>- 11.5</td>
<td>+ 8.1</td>
<td>+ 2.8</td>
<td>+ 2.4</td>
<td>+ 2.6</td>
</tr>
<tr>
<td>1982</td>
<td>- 14.5</td>
<td>+ 9.0</td>
<td>+ 2.7</td>
<td>+ 3.8</td>
<td>+ 4.7</td>
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</table>

#### Hospital Insurance

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in Trust Funds, Proposal</th>
<th>Removing Cyclical Base for Old-Age, Survivors, and Disability Insurance</th>
<th>Increasing Revenues Base for Current Law</th>
<th>Reallocating Part of Interest HI Rate</th>
<th>Added Trust Funds, Proposal</th>
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</thead>
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<tr>
<td>1977</td>
<td>- 0.1</td>
<td>--</td>
<td>--</td>
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<td>--</td>
</tr>
<tr>
<td>1978</td>
<td>+ 1.9</td>
<td>--</td>
<td>+ 2.1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1979</td>
<td>+ 1.2</td>
<td>+ 0.5</td>
<td>+ 0.7</td>
<td>+ 1.1</td>
<td>--</td>
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<tr>
<td>1980</td>
<td>- 0.1</td>
<td>+ 1.1</td>
<td>+ 0.5</td>
<td>+ 1.1</td>
<td>--</td>
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<tr>
<td>1981</td>
<td>+ 3.6</td>
<td>+ 2.2</td>
<td>+ 0.3</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1982</td>
<td>+ 2.3</td>
<td>+ 2.4</td>
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</table>

#### Cumulative Total, 1977-1982

<table>
<thead>
<tr>
<th>Source</th>
<th>Change in Trust Funds, Proposal</th>
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</thead>
<tbody>
<tr>
<td>OASDI</td>
<td>- 55.9</td>
</tr>
<tr>
<td>HI</td>
<td>+ 8.7</td>
</tr>
<tr>
<td>Total</td>
<td>- 47.2</td>
</tr>
</tbody>
</table>

Note: Individual items may not add to total due to rounding.

OTHER SHORT-TERM FINANCING OPTIONS

Traditional Payroll Tax Financing Plan

In arriving at the our proposal, we considered and rejected a variety of options which used traditional payroll tax financing procedures. Each was designed to achieve OASI and DI reserves equal to 50 percent of the succeeding year's outlays by the end of 1982. Even such a balance would not allow the trust funds to survive another recession as severe as the most recent one.

To achieve this balance by increasing the earnings base is technically possible. However, the revenue needs are so large that this approach requires complete removal of the limit on all earnings subject to tax starting in 1979. Eliminating the earnings base still would not produce enough revenues to permit eliminating the HI tax rate increases now scheduled for 1978 and 1981.

Alternatively, a 50 percent target could be achieved through a combination of payroll tax rate and wage base increases. One such plan would require that the payroll tax rate, now 11.7 percent (for employers and employees combined) reach 14.2 percent by 1981. It would also require that the earnings base rise to $31,200 by 1982. (It is now $16,500 and would rise automatically to $23,400 by 1982.)

Adoption of any traditional financing plan would place a heavy burden on the economy, withdrawing over $80 billion in the 1979-1982 period through the relatively regressive payroll tax mechanism. Under the mixed rate and base plan outlined above, the payroll tax paid by the average worker in 1982 would be 21 percent higher than it would have been under 1977 rates and 13 percent higher than under the rates now scheduled for 1982.

We view these traditional approaches as being substantially inferior to the approach we have proposed.

Legislating Borrowing Authority for Social Security

As an alternative to the entire plan outlined in this memorandum, OMB and, to a lesser extent, the Treasury have suggested granting social security the authority to borrow—at the discretion of the Board of Trustees—from the general Revenues.
By asking Congress for the authority to shuffle reserves among the trust funds, it is conceivable that the social security system could be maintained into the early 1980s by further drawing down its present reserves. The borrowing authority would provide an additional guarantee against default on benefit obligations.

With borrowing authority, it would be possible to postpone making any additional decisions about social security financing, but asking only for the authority to borrow and to shuffle reserves among trust funds may serve only to further undermine confidence in the integrity of the system. Moreover, this approach only postpones the inevitable and, by further drawing down reserves, makes the ultimate financing problem even more difficult to resolve.

We oppose this approach because it does nothing to restore confidence in the social security system.

Use of General Revenues to Finance the Entire Shortfall

The Secretaries of Treasury and Commerce and the Chairman of the Council of Economic Advisors are concerned about the possible inflationary effects of the removal of the employer earnings base -- a critical part of the HEW proposal. Treasury, in particular, is also concerned that it might later prove to be inconsistent with general tax reform.

Two alternatives have been suggested that avoid the need for most or all increases in payroll taxes at this time:

1. Phased Funding of One-Half of Medicare from General Revenues

   In addition to the counter-cyclical general revenue mechanism, Charles Schultze suggests the gradual phase-in of one-half general revenue financing of the Hospital Insurance program. Under this plan:

   -- The general revenues would be used to finance 10 percent of 1978 HI expenditures; 20 percent of 1979 expenditures; and so forth up to 50 percent of expenditures in 1982 and after

   -- The legislated HI payroll tax rate increases in 1978 and 1981 would be retained

   -- As general revenues in HI rise, the HI payroll tax rate would be diverted to finance OASI and DI
This particular method of introducing additional general revenues has the advantage that

- it was recommended by the most recent Social Security Advisory Council
- unlike OASI and DI, the benefit paid in HI is not a wage-related benefit

It has the disadvantage that

- in order to solve the short-term problem, it requires counter-cyclical general revenues for OASI and DI plus additional general revenues for Medicare. Combining both of these mechanisms may be more innovation than can be tolerated if public confidence is to be restored.
- it only postpones the need to raise additional payroll tax revenues until the mid 1980s


The Commerce Department favors phased introduction of general revenue financing as a substitute for our proposal to remove the limit on the earnings subject to employer's tax. These general revenues would be in addition to the counter-cyclical general revenues. They would not be used to replace other elements of the HEW proposal.

The Office of the Vice President and the Department of Labor are interested in a similar approach -- moving toward general revenue financing of one-third of social security expenditures. This is an approach which has long been favored by James Burke, Chairman of the Social Security Subcommittee of Ways and Means, and is followed in several Western European countries.

It is possible to meet the revenue shortfall in OASI and DI with either of these general revenue alternatives. The first requires the infusion of roughly $57 billion in general revenues. Depending on how it is phased in, a plan to move toward one-third general revenue financing would require between $57 and $100 billion or more.
Either plan has the advantage of:

- allowing social security to be financed through at least 1982 with only a minor increase in payroll taxes.
- avoiding the possible adverse effects of our proposal to remove the employer earnings base:
  - increasing the rate of inflation
  - foreclosing future tax reform options
  - violating the tradition of equal contributions from employers and employees
- leaving the budget deficit or surplus in the early 1980s at the same level as if no short-run financing plan had been enacted

The disadvantages of these options are that

- these alternatives merely put the problem off until the 1980s and are more difficult to defend against charges of using large amounts of "funny money"
- neither contributes to balancing the budget in the early 1980s. Our plan to increase payroll tax revenues, largely through lifting the employer base, creates the scope for more ambitious tax reform or Federal expenditure initiatives.
- the amount of general revenues required for either plan is so large that it will provoke concern among many Representatives and Senators that the principle of social security self-financing is being irreparably breached.
- in each case, fundamental changes in social security financing policies are being proposed in response to a particular short-run problem.

We believe that removing the employer earnings base is both equitable and defensible

- its removal will end the present incentive to hire workers with high earnings workers to replace workers with low earnings
- by phasing in the removal, employers in particular and the economy in general will have time to adjust to its impact

We oppose the adoption of either of the two alternatives which involve solving the short-run problem largely or entirely through infusions of general revenues.
**OPTION 1**

**ADVISORY COUNCIL MODEL.**

Replacement rates are held constant at 1979 levels.

<table>
<thead>
<tr>
<th>Year</th>
<th>Worker with Average Earnings</th>
<th>Replacement Rates at Other Earnings Levels</th>
<th>Aggregate OASDI Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual Benefit (1976 Prices)</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>1980</td>
<td>$3,976</td>
<td>43%</td>
<td></td>
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<tr>
<td>1985</td>
<td>4,723</td>
<td>62</td>
<td>32</td>
</tr>
<tr>
<td>1990</td>
<td>5,132</td>
<td>62</td>
<td>32</td>
</tr>
<tr>
<td>1995</td>
<td>5,576</td>
<td>62</td>
<td>33</td>
</tr>
<tr>
<td>2000</td>
<td>6,063</td>
<td>62</td>
<td>34</td>
</tr>
<tr>
<td>2010</td>
<td>7,162</td>
<td>62</td>
<td>35</td>
</tr>
<tr>
<td>2020</td>
<td>8,462</td>
<td>62</td>
<td>35</td>
</tr>
<tr>
<td>2030</td>
<td>10,000</td>
<td>62</td>
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<tr>
<td>2040</td>
<td>11,814</td>
<td>62</td>
<td>35</td>
</tr>
<tr>
<td>2050</td>
<td>13,961</td>
<td>62</td>
<td>35</td>
</tr>
</tbody>
</table>

Average long-run cost (1977-2050): 13.9%  
Average long-run revenue: 11.9  
Long-run deficit: 2.0  

Replacement rates are held constant at their 1979 levels for all persons retiring before 1994. Thereafter, replacement rates are reduced at roughly one-half the rate at which real wage levels are rising.

<table>
<thead>
<tr>
<th>Year</th>
<th>Worker with Average Earnings</th>
<th>Replacement Rates at Other Earnings Levels</th>
<th>Aggregate OASDI Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual Benefit (1976 Prices)</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>1980</td>
<td>$3,976 43%</td>
<td>60%</td>
<td>32%</td>
</tr>
<tr>
<td>1985</td>
<td>4,723 44</td>
<td>62</td>
<td>32</td>
</tr>
<tr>
<td>1990</td>
<td>5,132 44</td>
<td>62</td>
<td>32</td>
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<tr>
<td>1995</td>
<td>5,550 44</td>
<td>62</td>
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<td>2000</td>
<td>5,753 42</td>
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<td>2010</td>
<td>6,231 38</td>
<td>54</td>
<td>31</td>
</tr>
<tr>
<td>2020</td>
<td>6,746 35</td>
<td>50</td>
<td>28</td>
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<td>2030</td>
<td>7,309 32</td>
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<td>7,914 30</td>
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<td>2050</td>
<td>8,571 27</td>
<td>38</td>
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Average long-run cost (1977-2050): 11.8%
Average long-run revenue: 11.9
Surplus: 0.1

Replacement rates decline as real wage increases force workers into higher brackets of the benefit formula.

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Benefit (1976 Prices)</th>
<th>Replacement Rates</th>
<th>Aggregate OASDI Expenditures</th>
</tr>
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<tr>
<td></td>
<td>Low</td>
<td>High</td>
<td>As Percent of Payroll</td>
</tr>
<tr>
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<td>42%</td>
<td>61%</td>
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<tr>
<td>1985</td>
<td>4,037</td>
<td>38%</td>
<td>55%</td>
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<tr>
<td>1990</td>
<td>4,127</td>
<td>36%</td>
<td>52%</td>
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<td>1995</td>
<td>4,288</td>
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<td>50%</td>
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<tr>
<td>2000</td>
<td>4,472</td>
<td>33%</td>
<td>48%</td>
</tr>
<tr>
<td>2010</td>
<td>4,909</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>2020</td>
<td>5,480</td>
<td>29%</td>
<td>42%</td>
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<tr>
<td>2030</td>
<td>6,145</td>
<td>27%</td>
<td>39%</td>
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<tr>
<td>2040</td>
<td>6,930</td>
<td>26%</td>
<td>36%</td>
</tr>
<tr>
<td>2050</td>
<td>7,858</td>
<td>25%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Average long-run cost (1977-2050): 10.4%
Average long-run revenue: 11.9
Surplus: 1.5

MEMORANDUM FOR THE PRESIDENT
FROM: Bert Lance
SUBJECT: Social Security Financing Alternatives

On April 21, Secretary Califano presented to the Economic Policy Group a proposal for short-term financing of social security and a proposal for adjusting the benefit structure of social security to inflation in the long term. The Secretary wishes an early decision so he can fulfill his commitment to the House Ways and Means Committee for the Administration's recommendations on social security financing in early May.

We disagree strongly with some major elements of the short-term proposal. We also have comments on the long-term inflation proposal. There has not been sufficient time to staff out an alternative short-term proposal in specific detail but we do suggest certain alternative elements. These alternatives are offered because we believe the Administration must respond to the Congress' demands for an initiative in this area, and because we believe Secretary Califano's proposals may embody changes in financing policy that could have unintended consequences in the long term and will probably generate unwanted controversy in the Congress.

Comments on HEW's Short-Term Financing Proposal

Three social security trust funds are financed by payroll taxes: (a) Old-Age and Survivors Insurance (OASI); (b) Disability Insurance (DI); and (c) Health Insurance (HI), which is part of Medicare. As can be seen in Table I, both OASI and DI are paying more in benefits each year than is received in revenue. Unless this situation is remedied by Congress, DI will exhaust its cash balances by 1979 and OASI by 1983.
Goal of Short-Term Financing Proposal

We do not believe a 50 percent reserve ratio desired by HEW for OASDI is required in the immediate future. In essence, HEW has proposed permanent actions (tax increases and general revenue funding) with significant policy implications for solving future short-term financing problems. The short-term problem can be resolved without a large tax increase. As there are many inequities and significant problems with both OASDI's tax and benefit structure which must be resolved shortly, the high rate of new revenues and transfers proposed by the Department would detract from consideration of alternative approaches to these long-range issues.

Macroeconomic Considerations

The macroeconomic effects of the HEW proposal have not been analyzed. New payroll tax revenues of $47 billion proposed by HEW through 1982 would have a significant impact on the economy. If the employer is taxed on all wages as HEW recommends, we do not know what will happen to hiring and wage patterns of labor intensive businesses or to the inflation rate if this higher cost is passed on to consumers. How will aggregate employment be affected by higher payroll costs? Who should bear the burden of financing social security?

General Fund Payments

There are two problems with countercyclical general fund financing:

-- First, the Department argues that these payments would provide the funds with lost payroll tax revenues from the unemployed. However, while unemployed persons do not pay a social security tax, their ultimate OASDI benefits are reduced because their average lifetime earnings will be correspondingly lower. Therefore, the supporting rationale for general fund payments is questionable. The OASDI funds are already countercyclical and the infusion of general funds does not add to the countercyclical effect but simply subsidizes an inadequate social security tax.

-- Second, HEW maintains these payments will not affect the Federal deficit. This is not so. General fund payments must ultimately be financed from three sources: (a) increased general taxes; (b) reduced
non-social security Federal expenditures; or (c) increased Federal borrowing with a consequent higher accumulated Federal debt and associated interest costs. The Department assumes payments will be financed by increasing the debt, requiring Congressional approval for lifting the debt ceiling.

Alternative Financing

Table II displays an alternative proposal. It does not raise the payroll tax rate or wage base but includes:

(a) legislative changes proposed in the 1978 Budget ($10 billion)

- outlay savings from program simplification, student benefit, retirement test, and retroactive payment proposals;

(b) transfer of funds from OASI to DI.

(c) reallocation of up to .1 percent of the scheduled .4 percent 1978 tax hike for HI to DI ($6 billion).

(d) acceleration of deposits of State social security contributions through regulations ($3 billion).

HEW's proposal ignores the 1978 Budget's legislative proposals while this alternative assumes their enactment. States currently deposit social security contributions one month and fifteen days after the close of a quarter; the proposed regulation now being developed would require deposits fifteen days after the close of each month, thereby establishing procedures similar to those followed by private employers. The reserve ratio in 1982 under this option would be less than HEW proposes but higher than under current law projections. It would require further legislative action before 1982 to correct the long-term financial problem.

We believe some of the components of HEW's proposal may have merit and could be incorporated in this alternative if supported by economic analysis.

Comments on HEW's Long-Term Financing Proposal (Decoupling)

The Department recommends the same decoupling model as proposed by the Ford Administration to correct a faulty method of increasing benefits for inflation. Because HEW's decoupling model results in additional short-term costs
(almost $2 billion through 1982) to the trust funds due to hold-harmless provisions, any decoupling proposal must be reviewed in conjunction with short-term financing alternatives.

There are several methods to reduce or eliminate the short-term costs of decoupling. For example, rather than guaranteeing retirees the higher of either the old or new benefit formula over the next ten years, the benefit amounts could be determined in the short-term by a changing combination of the old and new formula. In the first year 20 percent of the benefit amount could be based on the new formula and 80 percent on the old formula. The new formula would be used at increasing increments of 20 percent in succeeding years until fully phased in. This modification introduces the new formula affecting future retirees gradually rather than suddenly shifting to the new formula after ten years and concurrently reduce or eliminate short-term costs.

RECOMMENDATION

We recommend the Congressional Committees be advised that the Administration's position will be resolved by June.

Attachments
<table>
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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
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<td></td>
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<td>-15.4</td>
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<td></td>
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<td>$18.5</td>
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<td>31%</td>
<td>23%</td>
<td>15%</td>
<td>7%</td>
<td>0%</td>
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<tr>
<td><strong>HI</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
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<td>$19.8</td>
<td>$23.1</td>
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<td>57%</td>
<td>50%</td>
<td>52%</td>
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<tr>
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<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current law projections (change in trust fund)</td>
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<td>-3.9</td>
<td>-5.3</td>
<td>-6.0</td>
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<tr>
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<td>1.5</td>
<td>2.0</td>
<td>2.4</td>
<td>2.9</td>
<td>9.7</td>
</tr>
<tr>
<td>Transfer from OASI to DI</td>
<td>-2.5</td>
<td>-2.5</td>
<td>-2.5</td>
<td>-2.5</td>
<td>-10.0</td>
<td></td>
</tr>
<tr>
<td>Accelerate deposits of State social security contributions</td>
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<td>.3</td>
<td>.3</td>
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<td>End-of-year balance with changes</td>
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<td>25.1</td>
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<td><strong>DI</strong></td>
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<td>Current law projections (change in trust fund)</td>
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<td>.1</td>
<td>.1</td>
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<td>Transfer from OASI to DI</td>
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EPG
MEMO
MEMORANDUM FOR THE PRESIDENT
FROM: W. MICHAEL BLUMENTHAL
CHAIRMAN, ECONOMIC POLICY GROUP
SUBJECT: SOCIAL SECURITY FINANCING

SUMMARY

The Administration is scheduled to testify before the House Ways and Means Committee on May 10 on the financing of the Social Security System. At that time we should be in a position to explain how we plan to deal with serious short and long term financing problems.

The short-term problem is to prevent social security from being depleted between now and 1982. Three options developed in EPG discussions center around different ways to raise enough money and involve variants of expanding the payroll tax base or using general revenues. In addition they are premised on the need for the social security system to maintain a reserve of at least 35% of previous year's expenditures as a confidence factor. The fourth option argues for postponing major changes at this time. It assumes a much lower reserve would be adequate. All options require legislation.

The four short-term options are as follows:

Option 1 -- Use general revenues when there is a recession and significantly expand the tax base for employers much more than for employees. Between 1978-1982 general revenue outlay is $14 billion and $30 billion would be raised in payroll taxes. $12.5 billion would be raised by other measures. HEW, HUD, Treasury and Labor support this option.

APPROVE ___________ DISAPPROVE ___________
Option 2 -- Use general revenues during recessions and also to permanently subsidize up to 50% of medicare. No payroll tax increase. General revenue outlay (1978-1982) is $56 billion. CEA supports. Labor can also support.

APPROVE _______  DISAPPROVE _______

Option 3 -- Use general revenues for recessions. In addition use general revenues permanently for up to one-third of total social security costs. Possibility of increasing payroll tax base as well. Could amount to $56 billion in general revenues for 1978-1982 period. Commerce supports.

APPROVE _______  DISAPPROVE _______

Option 4 -- Avoid major changes in social security system now. Rely on additional funds from program savings, and assume further structural changes between now and 1982. No general revenues or tax increases. OMB supports.

APPROVE _______  DISAPPROVE _______

The long term problem is to rectify a faulty system which increases benefits faster than wages, and to prepare for an increased proportion of retirees to workers in the country. The unanimous EPG recommendation is to stabilize the ratio of benefits to pre-retirement income at 1979 levels while a more permanent solution is devised.

APPROVE _______  DISAPPROVE _______
DISCUSSION

The Administration is scheduled to testify before the House Ways and Means on May 10 on the financing of the Social Security System. Since serious short and long term financing problems exist, we must be prepared to offer our own proposals in order to maintain public confidence in the Social Security System.

This memorandum briefly outlines both short and long term financing options considered by the EPG. Secretary Califano and Director Lance are sending separately more detailed analysis of their proposals.

Decision Issue 1 -- Short Term Financing

The short-term issue is that two social security trust funds -- old age survivors insurance (OASI) and disability insurance (DI) -- are being depleted rapidly, due to the recession and the unexpected increases in the number of claimants. Unless this situation is remedied by this Congress, DI will exhaust its cash balances by 1979 and OASI by 1983. As protection against another recession HEW believes trust funds should equal at least 50% of the succeeding years outlays if they are financed by the traditional payroll tax mechanism. HEW estimates that an $80 billion increase over expected revenues will be necessary by 1982 if the 50% reserve target is to be met.

Options

Four options emerged from EPG discussion for short term financing. Each is generally consistent with your campaign pledge not to raise the payroll tax rate. All would require major legislation. The two fundamental issues involved are the way money should be raised (e.g., general revenues vs. expanding the payroll tax base) and the reserve requirement, which has a direct bearing on the total amount to be financed. The figures used represent revenues or expenditures for the 1978-1982 period, unless otherwise noted.

Option 1: (HEW proposal) This has three principal components.

Use of general revenues for counter-cyclical purposes triggered when unemployment is above 6%. Because access to general revenues would increase
confidence in the social security system the need for a 50% reserve would be reduced to a 35% reserve (and thus reduce the amount required for such a reserve from $80 billion to $56 billion). About $14 billion in general revenues would be required when this proposal is made retroactive to 1975. This would be a one-time transfer and the new Social Security Advisory Committee would look into the question whether this would be done on a permanent basis.

-- Remove limit on earnings subject to tax for employers only. This would be phased in and raise $30 billion between now and 1982.

-- Raise the remaining $12 billion by a series of payroll tax increases including retaining tax rate increases already legislated, and small tax rate increases for employees and employers.

PROS:
-- Provides insurance against another recession.
-- Would avoid the threat of even higher taxes on employees.
-- Would only slightly increase social security benefit obligations, since these are tied to employee and not employer contributions.

CONS:
-- Use of general revenues will be very controversial in Congress.
-- About $14 billion of general revenues would be required through 1982.
-- Increasing employer tax base will be inflationary, since costs are likely to be passed through to consumers. CEA estimates that 0.7% will be added to payroll costs, which together with increases scheduled under current law, would raise costs 1.4% between now and 1981.
-- Increasing employer tax base would also upset the traditional balance between employee and employer tax and thus appear to be a larger burden on business.
Option 2: (CEA proposal) This has two key components.

- Use general revenues for counter-cyclical purposes as in option 1 (reduces reserve requirement and requires $14 billion of general revenues).
- Also use general revenues on a permanent basis for part of the Health Insurance portion of Social Security, building up gradually to a 50% maximum share. The other 50% would still come from the payroll tax. About $42 billion in general revenues would be required over the 1978-82 period.

PROS:

- No payroll tax increases beyond current legislation would be necessary.
- It would take into account the fact that medicare benefits are not generally related to the contributions made through the payroll tax.
- This approach was recommended by the most recent Social Security Advisory Council.
- It would avoid the inflationary costs of the first proposal.

CONS:

- Controversial nature of using general revenues.
- About $56 billion ($14 billion counter-cyclical and $42 billion direct) in general revenues is required between 1978-1982.
- May change fundamental character of health insurance and complicate future Administration initiatives for national health insurance.
- There will be concern that once general revenues are used for health care, the cost of health care benefits will be difficult to contain.
Option 3: (Commerce proposal) This has two key components.

-- General revenues for counter-cyclical purposes as in first two options ($14 billion in general revenues are necessary).

-- Additional permanent direct use of general revenues, moving towards general revenue financing of one-third of social security expenditures.

This option does not remove the limit on the earnings subject to employers tax. Depending on how it is phased in, a plan to move toward one-third general revenue financing could require as much as $56 billion in the 1978-1982 period, with additional costs beyond that time.

PROS:

-- Avoids removing cap on taxable base for employers; hence reduces inflationary effect and appears more equitable to business.

-- Under some versions of this plan increases in payroll taxes could be avoided.

CONS:

-- This proposal has arisen several times in the past and has a long lineage of political controversy.

-- Could require $56 billion in general revenues through 1982.

Option 4: (OMB proposal) This has three key elements.

-- Make no commitment to use general revenues on a permanent basis as HEW proposes, or expand the tax base at this time. Allow time to study these proposals for possible use at a later date. (OMB believes that the key issue of how to protect the social security funds against further recessions does not need to be resolved immediately. In addition OMB takes the position that the use of general revenues does not add to the counter-cyclical nature of the social security system, but merely acts as a subsidy to the payroll tax.)
-- Accept a much smaller reserve for the social security system until 1982. (Under this plan a reserve of at least 14% would be established by 1982. This reduces the $80 billion deficit, which is premised on a 50% reserve, to about $20 billion.)

-- Save $20 billion in outlays via a combination of legislative changes already proposed in the 1978 budget. Funds between various components of the social security system would be shifted to avoid short term fund exhaustion. States would be required by regulation to deposit their withheld social security taxes earlier.

PROS:

-- Avoids payroll tax increases and use of general revenues for near term and therefore could allow us to get through 1982 without having to make fundamental changes in the social security system. The basic premise, however, is that economic recovery will continue through 1982.

-- Allows time for more complete analysis of other options, and assumes the Administration will recommend structural changes to the system in the 1979 budget to take care of future financing.

CONS:

-- Clearly a very short term measure and may be seen as a "quick fix."

-- The low reserve may undermine confidence in the system.

-- Would be inadequate if economic recovery slows down.

Other Short Term Financing Options

Other possibilities discussed in the EPG were large increases in the payroll tax rate and granting the Social Security Trustees borrowing authority from the Treasury. The first would violate your campaign pledge. The second could severely undermine confidence in the social security system, since it could be seen as loading more debt on the trusts. On the other hand, there is the possibility that borrowing would not occur, in which case the Treasury would be a cost-free reserve. At this time no EPG member supports either proposal.
The long-term problem is that in 1972 Congress enacted a faulty mechanism to adjust social security benefits automatically for inflation. The problem is significantly compounded by anticipated demographic shifts increasing the ratio of retirees to workers in the twenty first century. Social security pensions will rise more rapidly than pre-retirement wages, and eventually many retirees' benefits will exceed their pre-retirement earnings. HEW estimates that over the next 75 years payroll taxes would have to rise by about 80% in order to finance the benefits provided for by present laws.

There are two options. The first is that "replacement rates" -- e.g., the ratio of an individual's initial retirement benefit to his pre-retirement earnings -- be held constant at 1979 levels (44%). This, however, does not completely solve the long run problem since a sizable deficit will still remain. The second is that at some point in the future replacement rates decline below 44%. Under certain formulas the long run deficit can be removed. All EPG members support the first alternative -- hold the replacement rate at 44% -- as the only politically feasible option at this time. However, there is agreement that when the Social Security Advisory Committee convenes later this year, it should be encouraged to examine possibilities to pursue one of several proposals which will eventually lead to a lower replacement rate and no long run deficit.
BALL
MEMO
INSTITUTE OF MEDICINE

MEMORANDUM TO THE PRESIDENT

Robert M. Ball
Senior Scholar

Restoring Public Confidence in Social Security Financing

Summary of My Position

1. I think the HEW plan is an excellent one.

2. In the longer memorandum attached I have proposed some modifications which would deal with three problems I see in the HEW proposal:

   a. A small increase in the overall contribution rate in 1979 and a somewhat larger increase in the contribution rate in 1981. I think these can be avoided.

   b. Insufficient funding of the plan in the period 1984 to 1990.

   c. A failure to bring down the long-range actuarial imbalance to a completely acceptable level.

Whether or not you accept any or all of my suggestions for the modification of the HEW plan you can count on my support for the general direction of their proposal.

Robert M. Ball
MEMORANDUM TO THE PRESIDENT

Robert M. Ball
Senior Scholar

Restoring Public Confidence in Social Security Financing

H.E.W. has done an excellent job in balancing the advantages and disadvantages of various approaches to the financing problem in social security and has come up with a good plan which comes very close to carrying out your campaign commitment to "completely restore the financial integrity of the social security system." I fully endorse the major features of the plan.

Yet it is not a complete solution. By combining a part of the CEA plan with the H.E.W. plan (modified in one or two respects) you can make a recommendation to the Congress which is 100 percent in line with your campaign promises and a complete solution to the problem of financing the present system. (Questions that H.E.W. raises about "structural changes" in the program, which may or may not be recommended by the coming Advisory Council on Social Security, are a separate matter to be dealt with later. The problem now is to fully finance the present program with whatever modifications you now recommend.)

I believe it is important for you to recommend a complete solution of the financing problem because if you leave any loose ends, the Congress may adopt its own full solution--desirable or not--and you will be faced with the problem of whether or not to approve the bill.

Perhaps the reason I feel more strongly on having a complete solution than H.E.W. does is that I completely disagree with H.E.W. that a "declining replacement rate" (the ratio of benefits to recent earnings) would be more desirable than the proposal they recommend, "stabilizing replacement rates," if declining replacement rates could be sold. It is not a matter of acceptability. In my opinion, the proposal for declining replacement rates is a bad proposal. Present replacement rates are 43 percent of recent earnings for the average worker. Under the proposal H.E.W. speaks favorably of, the rate would ultimately drop to 27 percent. Young people who are the ones now complaining most
about equitable treatment under social security would be the ones hurt. As a matter of fact, part of the danger is not having a complete solution to the long-run deficit problem, as in the HEW plan, is that the Congress might adopt the alternative of a declining replacement rate in order to bring the system into full balance. This evidently would not disturb HEW, but I think it should. If you sign a final bill with declining replacement rates you would have the onus of reducing the relative value of social security benefits for young people and for reducing the role of social security generally. It is unnecessary to take this risk.

GOALS

In restoring public confidence in social security financing there are both short- and middle-range goals, on the one hand, and a long-range goal on the other. It is necessary to meet them all. The long-range goal will be just as important to the Congress and the American people as the short- and middle-range goals.

The Long-Range Goal

Social security long-range cost estimates are made over a 75-year period by the trustees of the social security funds (by law, Secretary Blumenthal, Secretary Califano, and Secretary Marshall), with the detailed work being done by the actuaries of the Social Security Administration. This year's report, which will be released simultaneously with your recommendations for solutions of the financing problem, will show a horrendous deficit of 8.2 percent of covered payrolls (last year's deficit was almost as bad, 7.96 percent).

In 1973, the last time there were significant changes in the program, the Congress, guided by the best estimates then available, provided financing for the social security system that left a deficit of only about a half a percent of payroll or about 5 percent relative to the total outgo of the system over the next 75 years. Given the uncertain nature of the long-range estimates, the Congress found this small relative deficit to be within the range of acceptable variation from exact actuarial balance. I believe you can safely adopt the same rule of thumb and aim at getting the long-range imbalance down to within 5 percent of what the trustees estimate the outgo of the system to be over the next 75 years. This much leeway seems to me to be acceptable, particularly since I believe the trustees' estimates are on the conservative side by at least 5 percent. Therefore your goal as far as the long-range costs are concerned should be to reduce the 8.2 percent deficit to be shown by the new trustees' report to about 5 percent of the next 75 years' estimated outgo, (that is, less than 0.7 percent, under the system as modified by the HEW proposals).

The Short- and Middle-Range Goals

More money should be coming into the system than going out during years of relatively full employment so as to maintain a contingency fund under social security that is sufficient to weather periods of relatively severe recession without having to raise contribution rates.
during such a period. I agree with HEW that such a fund should be about 50 percent of the next year's benefit outlays, or about 33 percent if a Government guarantee is included in the plan.

The short-range, middle-range, and long-range goals should all be accomplished in the same set of recommendations. Here is what I propose:

RECOMMENDATIONS

1. Stabilize the Replacement Rate

As you pledged during the campaign (and as recommended in the HEW plan) the automatic provisions in the present law should be changed so that benefits paid in the distant future are the same percentage of wages being earned by people at that time as is true for people retiring today. This change reduces the imbalance in the trustees' report from 8.2 percent of payroll to 4.01 percent of payroll (attachment #1). (You should know that a group of actuaries and economists commissioned by the Ways and Means Committee and the Senate Finance Committee have written a report advocating that this replacement rate be reduced in the future and that, in effect, the social security deficit be liquidated by reducing the relative role of social security. This is a variation of the proposal to keep the replacement rate level for the next 15 years or so and then reduce it, which is mentioned favorably in the HEW memorandum. Either approach attempts to solve the problem of long-range social security financing by making social security inadequate in relative terms for people now young.)

I strongly back the HEW recommendation and equally strongly object to the statement in their memorandum that it would be good to reduce replacement rates today are certainly not excessive. To back away from the pledge to stabilize replacement rates would on this issue put the Administration to the right of the Ford recommendations and in conflict with labor, senior citizens' groups, the life insurance industry, the Advisory Council on Social Security of 1975, and, I believe, the Chamber of Commerce and other organizations of industry. In spite of the broad consensus for the HEW recommendation, I am spending this much time on the issue because (1) HEW says they really prefer a declining replacement rate although they recommend against it; (2) some influential economists favor the declining replacement rate proposal; and (3) it is reported that Senator Russell Long may also be favorably inclined in this direction. In fact, one reason I think you need a full solution of the long-range deficit problem is that if you don't propose a complete solution, Senator Long may push the declining replacement rate as his solution.

2. Increases in the Maximum Earnings Base

During the campaign you indicated that if it turned out to be necessary to increase the income to the social security program, you would recommend doing it through increases in the maximum earnings base as compared to increases in the contribution rate, because increases in
the rate fall on all workers—the low-paid as well as the higher-paid—
while increases in the base result in higher payments only for the 15
percent of wage earners now earning more than the maximum base under
present law.

The HEW proposal removes the base entirely from employers in three
steps so that by 1981 employers would be paying social security contribu­
tions on their entire payrolls. The HEW plan includes relatively
modest increases in the maximum earnings base for employees, $600 above
what would be required under present law in 1979, and $600 above what
would be required to maintain that level in 1981. This is a good pro­
posal, in my opinion.

Although a departure from tradition (changes in the maximum earnings
base have moved together for both employers and employees in the past),
this proposal has the advantage of not increasing employee contributions
as much as would otherwise be the case. Also, since benefits are based
on employee wage credits, the proposal does not increase benefits as
much for the future as would be true under the traditional method, and
this improves the financing of the system. Not increasing benefits for
the higher-paid workers as much as would be the case if the wage base
were substantially increased for employees also means that the proposal
will not be perceived to be as much of a threat to private savings and
private pensions, etc. as would otherwise be the case.

I do not object to this departure on the basis of traditional social
security principles. The contributory principle is upheld by deductions
from workers' earnings, and there is no good reason why the employer
should not contribute more to the system than the employee. The
employers' contributions are not credited to individual employees, but
are rather contributions to the system as a whole. To have employers
pay on the total payroll is quite reasonable.

This proposal will receive the full support of the AFL-CIO, senior
citizens' groups, and social welfare groups. Employers will be opposed
but perhaps not as much so as might at first appear. The question for
them will be, "As compared to what?" Employers generally would like to
meet the deficit in social security financing by straight, across-the­
board increases in the contribution rate, but I believe they realize
that the increases that would be necessary (about 2 percent of payroll,
each, for employees and employers if enacted right away, more if spread
out) is way too large to have any chance of acceptance. Assuming they
can't get support for large increases in the contribution rates,
employers are faced with what they consider distasteful alternatives.
They are opposed most of all to general revenue financing for social
security. (They would be much more opposed to the CEA plan than to
HEW's.) Next, they are opposed to the traditional kind of increases in
the wage base which raises benefits for employees at the upper earnings
levels because they feel that this increases benefits too much for the
higher-paid and "invades" an area that they believe should be left to
private savings and private pensions. Thus the HEW proposal may well
be considered by some of the leaders in the insurance industry and
business as the least of evils, although they obviously will testify
for contribution rate increases rather than the proposal.

Another advantage of this proposal is that it would eliminate the
incentive in the present system to hire higher-paid workers as compared
to those earning below the maximum earnings base.

One legitimate concern with regard to elimination of the base for
employers (or with a sharp increase in the base in the more traditional
sense) is the potential inflationary effect as the economy absorbs the
tax increase. I believe the HEW proposal for a 3-year phase-in of the
elimination of the base is a desirable feature that should moderate
this effect.

This recommendation helps greatly to meet both short-run and long-run
goals, reducing the long-range actuarial imbalance from the 4.01 percent
of payroll imbalance reached after stabilizing the replacement rate to
2.97 percent. (See attachment 1.)

The HEW recommendation on this point seems to me to fall within your
campaign pledge to use a higher wage base as the approach to financing
the social security deficit.

3. Shifting Part of the Contribution Rate for the Hospital Insurance
Program under Medicare to the Cash Benefit Program

With the changes in the maximum earnings base already described, the
income to the hospital insurance program under Medicare will, of course,
be larger than now anticipated since the contribution rates will be
applied to a larger payroll. Thus it is possible without weakening the
financing for the hospital insurance as compared with present law to shift
part of the contribution rate to the cash program. There is a scheduled
increase in the contribution rate for hospital insurance in present law
of .2 percent on employers and .2 percent on employees in 1978. HEW
proposes that half of this increase (.1 percent on the employee and
employer, each) be shifted to the cash benefit program. I agree.
This would further reduce the long-range deficit by about .2 percent
of payroll to about 2.77 percent. (See attachment #1.)

HEW proposes that in 1979 the hospital insurance rate be increased by
.05 percent for employees and employers, each, in order to moderate
decreases in the contingency reserve for the hospital insurance program.
I disagree. The result of this proposal is (1) to increase the overall
contribution rate for social security and Medicare in 1979 (although
small, such an increase is contrary to the general position you took
during the campaign); (2) it will seem confusing to the Congress to take
away from health insurance in 1978 and then add to it in 1979; and (3)
most important, I believe it to be unnecessary. The proposals that you
have sent to the Congress for controls on hospital costs, if passed,
will save $1.4 billion for the hospital insurance program in Medicare
in 1979 and it seems to me that you should rely on the passage of these
controls rather than a higher contribution rate to meet the income/outgo
goals and reserve levels that HEW has in mind. If the Congress fails
to pass your recommended cost controls, the onus is on the Congress to
raise the money for Medicare reserves, but I see no reason for you to
recommend a higher overall contribution rate for this purpose.
4. HEW Proposal for Small Contribution Rate Increase for the Cash Program in 1981

HEW proposes that in 1981 the overall contribution rate for social security and Medicare combined (already scheduled under present law to increase by .15 percent) should go up .1 of 1 percent on employers and employees with the additional income going to the cash benefit program. I personally don't feel very strongly on this recommendation, one way or the other but labor will testify against it, and it is at least somewhat contrary to what you said in the campaign. I think there are other solutions. Here is where you could take a small part of the CEA recommendation and move an additional .1 of 1 percent in the contribution rate from hospital insurance to the cash benefit program and either depend on additional savings from your cost control proposals or issue bonds to the hospital insurance trust fund to maintain the hospital insurance reserves at the desired level. It is possible that these Government pledges to pay for hospital insurance would never need to be redeemed but they would provide the desired level of reserves.

Either the HEW recommendation for increase in the cash contribution rate or shifting the rate from the hospital insurance to the cash benefit program will reduce the long-range deficit in the cash program another .13 percent of payroll to 2.58 percent. (See attachment 1.)

5. Financing the Period Between 1984 and the Year 2000

The HEW proposal has a shortfall between the years 1984 and 1990. To meet this shortfall I would, as proposed by CEA, shift part of the contribution rate from hospital insurance under Medicare to the cash benefit program. It would take a shift of .25 percent of payroll for the employee and a like amount for the employer. Again, your cost control recommendations, particularly the controls on capital expenditures, would have produced savings by this period to enable the shift to be made, when the higher payrolls from the increases in the earnings base are also taken into account. This provides for a .43 percent reduction in the long-range actuarial imbalance over the HEW proposal, reducing the imbalance to 2.15 percent of payroll. (See page 2 of attachment 1.)

6. Moving the 2011 Rate Increase Scheduled in Present Law to 1990

Because of the expected increase in the ratio of older people to those of working age in the next century, the present law provides for an increase in the contribution rate of 1 percent on employers and 1 percent on employees in 2011. HEW proposes to move this rate increase up to 1990. This is a necessary step, along with the other proposals, to carry the program through the rest of this century. I fully support this proposal. It will have the support of business and I believe labor will not object, certainly not strongly, as long as the rate is not increased before 1990 and it is a rate already in present law. Rate increases in the 1980's would certainly be strongly opposed. The HEW recommendation, which I support, results in a further reduction in the long-range actuarial imbalance of .56 percent, bringing the imbalance down to 1.59 percent. (See attachment 1.)
7. A Government Pledge to the Trust Fund to Reduce the Needed Size of Contingency Reserves

HEW proposes that the Government issue bonds to the cash benefit trust funds in the amount necessary to make up for the loss of income to the funds since 1974 as a result of the unemployment rate exceeding 6 percent. The theory is that the size of the contingency reserve for the cash benefit program can be about 33 percent of the next year's benefit outgo instead of 50 percent if a Government pledge to bolster the trust fund from general revenues whenever the unemployment rate exceeds 6 percent is included. The HEW proposal would provide for doing this just once and for referring the issue to the statutory Advisory Council on Social Security, soon to be appointed, to recommend whether the provision should be made permanent.

I have no substantive objection to this proposal. It will not affect the budget of the United States (although it will the size of the debt) until, and if ever becomes necessary to draw the trust funds down to the point that such bonds are actually cashed in. I have some concern that the device may be attacked as a "phoney" since no money is actually raised. It can be made to look as if part of the financing solution is just being done on paper. However, on balance, I support the proposal as part of a total solution, most of which does depend on actually raising real income for the social security system.

It does not seem to me, however, that it would be credible to try to solve the major part of the short-run social security problem simply by pledging later general revenue money through putting bonds in the fund. This would be merely a postponement of the problem and would be so interpreted. For example, the CEA proposal is to do just that for the Medicare program. They propose shifting the contribution rate now pledged for hospital insurance under Medicare over to the cash benefit program while putting Government bonds in the hospital insurance trust fund. This postpones the day of reckoning until about 1982 or 1983 when those bonds would have to be redeemed. Another problem with the CEA proposal is that it does not do enough about the long-range actuarial imbalance, reducing it by only 1.4 percent of payroll below what is accomplished by stabilizing the replacement rate. Perhaps even more serious, it pledges general revenues of the Federal Government in very large amounts (revenues that may well be needed for welfare reform, national health insurance, and other initiatives) in the period from 1982 or 1983 on.

8. Contribution Rate for the Self-Employed

The HEW proposal would restore the practice of setting the contribution rate for the self-employed for the cash benefits program at 1 1/2 times the employee rate. The rate for the self-employed was originally set at 1 1/2 times the employee rate as a compromise recognizing that coverage at the same rate as the employee would be disadvantageous to this system as a whole while a rate equal to the total combined rate would be unduly high for many self-employed persons. However, a limit of 7 percent on the self-employed contribution (less than 1 1/2 times the employee rate) has been observed for the past decade. Restoration
of the full 1 1/2 contribution rate for the self-employed was recom-
mended by the 1974-75 Advisory Council and endorsed by the Boards
of Trustees. This proposal further reduces the long-range deficit
by .11 percent to 1.48 percent of payroll. (See attachment 1.)

9. Eligibility Test for Dependents' Benefits

HEW proposes a new "eligibility test" for dependents' benefits to offset
the additional cost arising from recent Supreme Court decisions under
which men would no longer have to meet a support test in order to get
husband's or widower's benefits. However, HEW does not set forth a
specific recommendation in this regard. One such proposal would be
to provide, as recommended by the 1974-75 Advisory Council, that pensions
earned in work not covered by social security would be treated as social
security benefits are treated in determining eligibility for aged depend­
ents' and survivors' benefits. Under this approach, a person would
be eligible for social security dependent's or survivor's benefit only
if, and to the extent that, this benefit exceeded the benefit based on
his or her own earnings. This would provide comparable treatment for
workers regardless of whether their jobs were covered under social
security or not and would avoid paying dependents' and survivors' bene­
fits as a windfall to people whose jobs were not covered by social
security.

This proposal, which I believe is a good one, would further reduce the
long-range deficit by .04 percent of payroll, to 1.44 percent. (See
attachment 1, page 2.)

10. Remaining Problems

Although we are now getting close to a solution of both the short- and
the long-run problem, there remains one difficulty—a long-range imbalance
of .74 percent in excess of the goal of an imbalance of less than 5
percent of estimated outgo in the 75-year period. To solve this problem,
I would recommend the use of general revenues either in the form of a
direct contribution to the cash benefit program, beginning after 2010,
or by further extention of the CEA recommendation for use of general
revenues in the hospital insurance program and a shift in the hospital
insurance rates to the cash benefit program. Obviously, this question
will be reexamined at the time national health insurance is adopted.
and, because 2011 is far off, will be reexamined many times before then,
in any event, but it is nevertheless an important part of a plan to pro­
vide a complete solution through a change in present law.

11. Restoration of General Revenue Guarantee

During the period from 1944 to 1950 the Social Security Act contained
the following provision:
"There is also authorized to be appropriated to the trust fund
such additional sums as may be required to finance the benefits
and payments provided in this title."

As part of the plan to restore public confidence in social security
financing I believe this provision should be put back in the law even
though it is estimated under the proposed plan that it would not be
needed in the short- or middle-range. The extent to which it might be
needed in the long-range will, of course, depend on the relationship between actual future experience and current estimates. This provision guarantees that no matter what else happens, the full faith and credit of the United States stands behind social security commitments.

**CONCLUSION**

As I said at the beginning, I believe the HEW plan is a good one but that it is not a complete solution. On the other hand, with the changes that I have suggested you can say that the cash benefit program under social security will be fully financed over the 75-year period for which the estimates are made and that it is expected that income to the program will exceed outgo every year into the future. This can be done without an increase in overall social security contribution rates and with very minimal reliance on general revenues at least for the remainder of this century.

There are always disadvantages as well as advantages to every good proposal. The CEA is undoubtedly right that removing the maximum earnings base for employers, no matter how gradually (or for that matter increasing the maximum earnings base evenly on employers and employees, or increasing the contribution rates) would be inflationary, as the additional cost of labor works its way through the system. I think the HEW proposal to grade in the removal of the employers' earnings base mitigates but does not, of course, get rid of this problem. There is no solution that does not have some adverse economic impact, and this makes timing of the changes important. On the other hand, it seems to me absolutely essential to propose legislation this year--regardless of the effective date--at the same time as the trustees' report comes out that will fulfill your campaign pledge to restore financial integrity to the social security system and to reassure the 33 million social security beneficiaries and the 110 million contributors to the system.

* * * * *

**Note on National Health Insurance**

You may also be interested to know that I have developed a self-supporting, comprehensive national health insurance proposal which has no budgetary effect and which, in a few years, would result in the country spending less money on medical care than would be the case if the program were not passed. I have sent copies to Stu Eizenstat and Joe Califano and have discussed the proposal with members of their staffs.

Robert M. Ball
## EFFECT OF HEW PROPOSALS ON LONG-RANGE IMBALANCE

<table>
<thead>
<tr>
<th>Description</th>
<th>Reduction ( Millions of Dollars )</th>
<th>Balance ( Millions of Dollars )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imbalance as it will be shown in the Trustees' Report</td>
<td>8.20</td>
<td></td>
</tr>
<tr>
<td>Reduction from an acceptable plan for stabilizing the replacement rate</td>
<td>4.19</td>
<td>4.01</td>
</tr>
<tr>
<td>(probably the one to be recommended by HEW)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction from eliminating the maximum earnings base for employers (on a phased-in basis)</td>
<td>.99</td>
<td>3.02</td>
</tr>
<tr>
<td>Reduction from increase in the maximum earnings base on employees</td>
<td>.05</td>
<td>2.97</td>
</tr>
<tr>
<td>Reduction from shifting part of the hospital insurance rate to cash benefit program (made possible because of the greater income to hospital insurance from removing the maximum earnings base for employers)</td>
<td>.20</td>
<td>2.77</td>
</tr>
<tr>
<td>Reduction from increase in the contribution rate</td>
<td>.19</td>
<td>2.58</td>
</tr>
<tr>
<td>Reduction from moving the contribution rate increase in present law back from 2011 to 1990</td>
<td>.56</td>
<td>2.02</td>
</tr>
<tr>
<td>Reduction from increase in the rate for the self-employed to the traditional 1 1/2 times the employee rate</td>
<td>.11</td>
<td>1.91</td>
</tr>
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</table>
### Additional Proposed Reductions

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance</th>
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<tbody>
<tr>
<td>Reduction from program modification to prevent unreasonable results arising from the Supreme Court decision on husbands and widowers</td>
<td>1.91</td>
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<tr>
<td></td>
<td>.04</td>
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<tr>
<td>BALANCE</td>
<td>1.87</td>
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<tr>
<td>Reduction from shifting part of the hospital insurance rate to the cash benefit program in 1984</td>
<td>.43</td>
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<tr>
<td>BALANCE</td>
<td>1.44</td>
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<tr>
<td>Reduction from shifting part of the hospital insurance rate to the cash benefit program after 2010 or from general revenue contribution to cash benefits</td>
<td>.74</td>
</tr>
<tr>
<td>BALANCE</td>
<td>.70</td>
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</tbody>
</table>

**Approximate actuarial balance (5 percent of estimated expenditures)**
CEA
COMMENTS
MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultz

SUBJECT: Financing the Social Security System

The Economic Policy Group has made a unanimous recommendation to you on the steps we should take to deal with the long-run financial difficulties of the Social Security System. There is disagreement, however, about the steps that should be taken to handle the system's financial problems in the years immediately ahead. I would like to comment briefly on the options for short-term financing that have been presented to you.

I. Dimensions of the Problem

A large infusion of new revenues into the Social Security trust funds will be required over the next five years if we are to prevent depletion of the funds and increase their balances to levels considered to be the minimum necessary to maintain public confidence in the Social Security System. Depending on the desired level of reserves, the new revenues must total between $60 and $80 billion.

To raise funds of this magnitude through the traditional mechanism of increasing payroll tax rates and the amount of wages that is subject to the tax would, in the short run, place a heavy burden on wage earners and the economy. An increased wage base would also entitle workers to larger benefits in the future, further aggravating the long-term financing problem.
Therefore, some use of general revenues appears to be the only solution to meeting the short-run Social Security deficit that is sound in terms of the needs of the economy and the program. The question, then, is to what extent should general revenues be used, and what is the justification for doing so?

II. The HEW Proposal

The HEW option would build up the OASDI trust funds (i) by injecting general revenues into the trust funds whenever unemployment exceeds 6 percent, and (ii) by removing the ceiling on wages subject to the employer's portion of the Social Security payroll tax. There are two very serious problems with the proposal to remove the ceiling on the employer's taxable wage base:

-- Employer payroll costs would increase by about 0.7 percent from this feature of the HEW plan; taken together with increases in the payroll tax rate already scheduled in current law for 1978 (0.2 percent), and further increases proposed by HEW for 1981 (0.4 percent), total employer costs would rise by about 1.3 percent between 1977 and 1981. Since employer payroll taxes are part of the cost of labor, most of this increase in costs will almost certainly be passed forward into prices in the short run. I am very concerned that such a boost in the inflation rate, when combined with the impact on prices from the energy program, will have a serious adverse effect on the economy.

-- Eliminating the wage ceiling only for employers would represent a major departure from the principle of equal sharing of the payroll tax between employers and employees. Such a change would likely be viewed as anti-business. Moreover, it would place nonprofit institutions such as universities in a very difficult position since they are much less able than business enterprises to pass large cost increases forward by raising prices.

III. The CEA Financing Option

A better solution to the short-run Social Security financing problem would be to use countercyclical general revenues during periods of high unemployment, as HEW proposes, and to utilize general revenue financing for up to one-half of the cost of Medicare benefits. Receipts
generated by the Medicare portion of the Social Security tax would then be shifted to the OASDI trust funds, raising their reserves to acceptable levels. This plan has several advantages:

-- It would require no increase either in Social Security tax rates or the wage base between now and 1982 beyond those already scheduled under current law. The effect of Social Security financing on the inflation rate would thereby be minimized.

-- It would not alter the principle of equal sharing by employers and employees of Social Security taxes.

-- This plan does not undermine the "earned right" principle of the Social Security System because, except for establishing eligibility, Medicare benefits are completely unrelated to an individual's earnings history.

-- General revenue financing of Medicare was recommended by the 1975 Advisory Council on Social Security.

-- The plan is clear and simple.

The principal objection to this proposal is that general revenue financing of Medicare would free Congress of the constraint to increase payroll taxes whenever it increased health care benefits. It is not clear, however, that the necessity to raise payroll taxes is any more an effective barrier to higher benefits than would be the necessity to raise other taxes. Moreover, we would retain payroll tax financing for half of Medicare costs.

IV. The Other Options

The Commerce Department has proposed that the Federal Government, employers and employees each pay one-third of the cost of Social Security benefits. The proposal has merit, but the implications of this formula have not been fully explored. It would represent a fundamental change in the Social Security System, a factor that would be bound to stir opposition and could slow progress toward resolution of the short-run problems.
The Office of Management and Budget has suggested a variety of internal arrangements in the Social Security System that would relieve the immediate financing problems temporarily. The plan will only postpone finding a solution to these difficult problems at a time when there are opportunities to implement at least some useful changes. Moreover, the OMB proposal calls for a significant draw-down in the level of Social Security trust funds. This would shake public confidence in the system badly, and would be bound to stir intense opposition from several constituencies.
MEMORANDUM

THE WHITE HOUSE
WASHINGTON

INFORMATION

2 May 1977

TO:
CHARLES WARREN
STU EISENSTADT
JACK WATSON
JIM FALLOWS
JODY POWELL
BERT LANCE

FROM:
RICK HUTCHISON

SUBJECT:
Environmental Message

The President returned the decision memorandum & comments in his Outbox with the comment, "No time - hold until after Summit." I will hold the memo, and resubmit it after the President returns from Europe.
THE PRESIDENT HAS COME.

THE WHITE HOUSE
WASHINGTON

MONDAY - 3:15 P.M.
MAY 2, 1977

MR. PRESIDENT

MR. SCHLESINGER WANTED YOU TO KNOW THAT HE HAS RECEIVED THE REPORT OF THE FEDERAL POWER COMMISSION WHICH CONTAINS RECOMMENDATIONS DEALING WITH ALASKAN NATURAL GAS TRANSPORTATION.
Latin Americans reacted in many ways to your OAS speech, but the one comment made most frequently was whether you would follow up your speech with actions. Almost all U.S. Presidents have promised to consult before making major decisions which would affect the region, but to the best of my knowledge, none of your predecessors have done this. Your meeting with the Ambassadors of Brazil, Dominican Republic, Peru, Costa Rica, and Trinidad and Tobago to discuss U.S. sugar policy will represent the first time that this pledge of consultation will be implemented. We have asked these Ambassadors to appoint a single spokesman in order to ensure that the meeting will be brief and to the point.

Sugar is one of the three most important exports of Latin America and the Caribbean. The region normally supplies over 60 percent of U.S. sugar imports. When the U.S. tripled the sugar duty in September 1976 to provide relief to domestic producers, Latin American governments unanimously passed a resolution at the OAS protesting the U.S. action.

Since the meeting is meant to be consultative, I am not recommending any position for you to consider. The issues which the Ambassadors are likely to raise include:

1. **International Sugar Agreement.** They have noted with approval our expressed desire to negotiate a new ISA.

2. **Import Restrictive Measures.** They have strongly protested the recommendation of the International Trade Commission on March 17, 1977, to provide import relief for the domestic sugar industry by either raising the tariff on sugar or reducing the total global quota. They would doubtless welcome your decision to reject import restraints on sugar.
3. **GSP.** The American Farm Bureau Federation petitioned the STR for the removal of sugar from the list of articles eligible for the generalized system of tariff preferences (GSP). In 1976 sugar imports from Latin America under GSP totaled $120 million, almost 15 percent of total Latin American benefits from GSP. Your decision to keep sugar on the GSP list will thus be welcomed.

4. **Redesignation.** Eight countries which were ineligible for GSP for sugar in 1976 because they exported more than $25 million worth of sugar in 1975, can be redesignated in 1977 because they exported less than the $25 million limit last year. These countries are Panama, Jamaica, Guyana, Colombia, Brazil, Argentina, Thailand, and the Republic of China. The Trade Policy Staff Committee is presently reviewing this decision. The Latins would interpret a decision not to redesignate eligibility as a "punitive" action or as an attempt to inhibit the expansion of their exports to the U.S.

There is some problem with Brazil which exported over 400 million pounds (worth $100 million) in 1975 when it was eligible for GSP and virtually nothing in 1976 when it was not. STR believes that if Brazil were declared eligible for GSP, it would probably try to exploit it by significantly expanding its exports this year, and that Congress would react very harshly to this strategy. Therefore, STR and the TPSC are trying to find a quantitative formula, which will probably exclude Brazil, but which would not appear to be aimed at Brazil.

5. **Competitive-Need Formula.** The Latins have protested the provision of the Trade Act which limits eligibility to GSP to $25 million (now $29.9 million because it is indexed to changes in the gross domestic product) of a specific article for export. This provision, the Latins argue, inhibits economies of scale which are only possible with expensive investments in sugar milling equipment. In particular, the Dominican Republic which ships over $200 million worth of sugar annually to the U.S. would benefit substantially from a revision of the competitive-need formula.

One last point. Ambassador Garcia-Bedoya of Peru would like to personally deliver a message to you from Peruvian President Morales Bermudez. The letter informs you of the very positive reaction in Peru to your speech and formally invites you to visit the country. It was written before they knew that Mrs. Carter would visit.
Five countries were selected to make the meeting a manageable size. Specifically, these five were selected by reference to the following criteria:

- Large supplier of sugar to the U.S.
- Importance of sugar to their economies.
- Democracies, respect for human rights.

**U.S. SUGAR IMPORTS FROM LATIN AMERICA**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Dominican Republic</td>
<td>$</td>
<td>245</td>
<td>441</td>
<td>215</td>
<td>39.8</td>
<td>18.7</td>
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<tr>
<td></td>
<td>Lbs.</td>
<td>1,603</td>
<td>1,513</td>
<td>1,850</td>
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</tr>
<tr>
<td>Costa Rica</td>
<td>$</td>
<td>33</td>
<td>19</td>
<td>27</td>
<td>10.4</td>
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</tr>
<tr>
<td></td>
<td>Lbs.</td>
<td>164</td>
<td>104</td>
<td>130</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trinidad</td>
<td>$</td>
<td>13</td>
<td>10</td>
<td>22</td>
<td>0.1</td>
<td>2.1</td>
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<tr>
<td></td>
<td>Lbs.</td>
<td>61</td>
<td>49</td>
<td>149</td>
<td></td>
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<tr>
<td>Peru</td>
<td>$</td>
<td>155</td>
<td>92</td>
<td>97</td>
<td>6.2</td>
<td>8.4</td>
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<tr>
<td></td>
<td>Lbs.</td>
<td>973</td>
<td>382</td>
<td>700</td>
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<tr>
<td>Brazil</td>
<td>$</td>
<td>402</td>
<td>100</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
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<tr>
<td></td>
<td>Lbs.</td>
<td>1,737</td>
<td>444</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
</tr>
</tbody>
</table>

* Based on preliminary estimates of 1976 exports.
Bert Lance -
The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Stu Eizenstat
Bob Lipshutz
Jack Watson

Re: Federal Compensation of Crime Victims
Mr. President:

See Lipshutz and Eizenstat comments, attached.

Rick
MEMORANDUM FOR THE PRESIDENT

FROM: BERT LANCE

SUBJECT: Federal Compensation of Crime Victims

Legislation is pending in the House and Senate which would establish new Federal assistance programs to compensate victims of Federal and State crimes. The Department of Justice is scheduled to testify before the House Judiciary Committee subcommittee. This memorandum requests your guidance on the position the Administration should take.

Summary of Legislation

H.R. 3686 (Rep. Rodino and 16 others) and S. 551 (Senator Humphrey and 4 others), would establish a grant program in the Justice Department to reimburse States which compensate victims of violent Federal and State crimes of their surviving dependents. Appropriations of $40 million for 1978, $50 million in 1979, and $60 million in 1980 would be authorized. Under this legislation, a State's crime victims compensation program would be eligible for grants to reimburse 50 percent of the costs of compensating victims of State crimes and for 100 percent of the costs of compensating victims of Federal crimes. The bills set a ceiling for each individual claim of $50,000.

Background

Over 20 States have established programs to compensate victims of violent crime. The Law Enforcement Assistance Administration (LEAA) has funded over 100 victim and witness assistance programs and victimization studies in 31 States. In addition, P.L. 94-430 established in LEAA a program under which a $50,000 death benefit is paid to survivors of State and local public safety officers (law enforcement and criminal justice personnel and firemen) who died as a result of injuries sustained in the line of duty.

Electrostatic Copy Made for Preservation Purposes
In the 94th Congress, the Senate passed legislation by an 80-4 vote which, in part, would have (1) established a program in Justice to compensate victims of Federal crimes and (2) permitted use of the LEAA's block grant funds by States to compensate victims of State crimes. The House Judiciary Committee reported out a bill, identical to H.R. 3686, by a vote of 16-15, but the 94th Congress adjourned before the House could act.

Issue

The basic issue is whether the Federal Government should assume responsibility for compensating victims of crime, and if so, whether or not this responsibility should extend to crimes entirely within the jurisdiction of the States.

Options

Option 1: Oppose any new Federal program to compensate victims of crime. This option preserves for States the right to determine whether such programs should be established without being preempted by a Federal action superimposing a national policy to induce State action. It avoids establishing long-term categorical assistance programs which may not be budgetarily controllable. It would not, however, preclude States from using available general revenue sharing funds. This option could be viewed by proponents of such legislation as insensitive to victims' needs, particularly when LEAA has spent billions to improve all components of State and local criminal justice systems. It is also, arguably, inconsistent with LEAA's Public Safety Officers Death Benefits program, which covers State and local officers.

Option 2: Favor Federal compensation for victims of Federal crimes only ($5-10 million estimated annual cost). This option would establish a Federal crime victims program consistent with the limited responsibility of the Federal Government in law enforcement matters, but is subject to criticism as a token gesture because the number of violent Federal crimes is a very small percentage of violent crime in this country.

Option 3: Favor Federal funding of State compensation programs under the LEAA block grant program (no additional cost--OMB recommendation). This option would require a simple amendment to LEAA's authority, and permit the States to decide whether to spend a portion of LEAA block grants (as well as general revenue sharing funds) for this purpose. This option would indicate your support for Government compensation of crime victims, preserve State discretion, and be reasonably controllable in the budgetary process.
Option 4: Support legislation such as H.R. 3686 ($40-50 million estimated annual cost--Department of Justice recommendation). This option would reflect your view that both the Federal Government and the States share responsibility to assist crime victims. States could still reject the Federal program, although they would be under increased pressure to establish such programs meeting the Federal criteria. However, future appropriation levels would be dictated largely by the number of crimes resulting in injury to victims. (The Department of Justice supports this legislation if amended to authorize the Department to directly compensate a Federal crime victim if the victim has no recourse to a State program.)

Decision

Option 1 (oppose Federal funding)
Option 2 (Federal crime victims only; Department of Justice to develop legislation)
Option 3 (Modification of LEAA authority to permit discretionary use of block grant funds; Department of Justice to develop legislation)--OMI recommendation
Option 4 (support of H.R. 3686 and authorizing staff to work for technical improvements--Department of Justice recommendation)

Additional instructions:

Be cautious--Cost seems to be grossly under-estimated. 1,000 murders at $50,000 each would cost $50 million. One city would use this much.

Electrostatic Copy Made for Preservation Purposes
MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT LIPSHUTZ

SUBJECT: Bert Lance's Memorandum - Federal Compensation of Violent Crime Victims

Before endorsing either the pending legislation or a similar program, I urge that a great deal more study be given to the matter. Not only should the immediate budgetary implications be thoroughly analyzed, but also we should anticipate other types of Federal compensation which this program might engender.

In effect, this would put the Federal Government into the "insurance" business as it relates to victims of violent crimes. Subsequently, it would be much easier to propound a claim for Federal compensation to victims of non-violent crimes such as frauds. And, with little imagination, this philosophy could be easily extended into Federal compensation to consumers, et al., who had been victimized by manufacturers and merchants.

I do not believe that merely shifting the method of compensation to the LEAA funds would prevent the foregoing possibilities of expansion.

I do not believe that we have already set a precedent by compensating the law enforcement officials or firemen who have been victims of such crimes. This is easily distinguishable from a program which would insure the general public.
MEMORANDUM FOR: THE PRESIDENT
FROM: STU EISENSTAT
SUBJECT: BERT LANCE MEMO 4/26 RE: FEDERAL COMPENSATION OF CRIME VICTIMS

I recommend Option 4. Option 3, which would permit the compensation of crime victims through the use of LEAA block grant funds, raises the following concerns:

1. The future of LEAA is uncertain.
   -- The Attorney General has appointed a task force to scrutinize and evaluate the entire concept of LEAA and its programs. It would not be wise to commit funds for a major new program under the circumstances.

2. Rather than encourage the compensation of crime victims, LEAA funding would have the opposite result.
   -- Block grant funding supports 90% of the costs of qualifying programs for a three year period. The states are then expected to take over the entire cost of the program;
   -- In vying for block grant funds, crime victim programs would compete with all other interests now funded through LEAA such as police, prisons, and courts.

3. LEAA funding would not lessen administrative problems, and in some cases would increase the administrative burden of states.
   -- In those states which already have victim programs, a new layer of bureaucracy would have to be created because states would be forced to go through the state planning agencies for funding;
State planning agencies are not presently set up to perform the auditing functions necessary to carry out the compensation of individual crime victims; this would have to be done in any event.

4. Politically, funding through LEAA will not be regarded as support for H.R. 3686.

-- It is clear that funding through LEAA will not be seen as a way of positively encouraging the victims of crime. At best it could be seen as a half-hearted attempt to support the legislation.

Further, the political realities of this legislation include the following considerations:

-- It will most certainly pass both houses of Congress this year and the Administration should be on the winning side;

-- The average citizen supports this kind of legislation and it would be a good element to include in the crime message;

-- Rodino has a special interest in this legislation. It is unlikely that the LEAA funding proposal will get out of committee. To support this would only irritate him with no meaningful results.

Bob Lipshutz concurs with this memo.
Date: April 27, 1977

MEMORANDUM

FOR ACTION: 
Stu Eisenstat
Jack Watson

FOR INFORMATION: The Vice President
Midge Costanza
Bob Lipshutz
Frank Moore

FROM: Rick Hutcheson, Staff Secretary


YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:
TIME: 11:00 A.M.
DAY: Friday
DATE: April 29, 1977

ACTION REQUESTED: 

Other:

STAFF RESPONSE: 

I concur. 

No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)
MEMORANDUM

FOR ACTION:
Stu Eizenstat
Jack Watson

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TIME: 11:00 A.M.
DAY: Friday
DATE: April 29, 1977

ACTION REQUESTED:
X Your comments
Other:

STAFF RESPONSE: I concur.

Please note other comments below:

No comment.

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If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone 7082)
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT
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Issue

The basic issue is whether the Federal Government should assume responsibility for compensating victims of crime, and if so, whether or not this responsibility should extend to crimes entirely within the jurisdiction of the States.

Options

Option 1: Oppose any new Federal program to compensate victims of crime. This option preserves for States the right to determine whether such programs should be established without being preempted by a Federal action superimposing a national policy to induce State action. It avoids establishing long-term categorical assistance programs which may not be budgetarily controllable. It would not, however, preclude States from using available general revenue sharing funds. This option could be viewed by proponents of such legislation as insensitive to victims' needs, particularly when LEAA has spent billions to improve all components of State and local criminal justice systems. It is also, arguably, inconsistent with LEAA's Public Safety Officers Death Benefits program, which covers State and local officers.

Option 2: Favor Federal compensation for victims of Federal crimes only ($5-10 million estimated annual cost). This option would establish a Federal crime victims program consistent with the limited responsibility of the Federal Government in law enforcement matters, but is subject to criticism as a token gesture because the number of violent Federal crimes is a very small percentage of violent crime in this country.

Option 3: Favor Federal funding of State compensation programs under the LEAA block grant program (no additional cost—CNR recommendation). This option would require a simple amendment to LEAA's authority, and permit the States to decide whether to spend a portion of LEAA block grants (as well as general revenue sharing funds) for this purpose. This option would indicate your support for Government compensation of crime victims, preserve State discretion, and be reasonably controllable in the budgetary process.
Option 4: Support legislation such as H.R. 3686 ($40-50 million estimated annual cost--Department of Justice recommendation). This option would reflect your view that both the Federal Government and the States share responsibility to assist crime victims. States could still reject the Federal program, although they would be under increased pressure to establish such programs meeting the Federal criteria. However, future appropriation levels would be dictated largely by the number of crimes resulting in injury to victims. (The Department of Justice supports this legislation if amended to authorize the Department to directly compensate a Federal crime victim if the victim has no recourse to a State program.)

Decision

_____ Option 1 (oppose Federal funding)

_____ Option 2 (Federal crime victims only; Department of Justice to develop legislation)

_____ Option 3 (Modification of LEAA authority to permit discretionary use of block grant funds; Department of Justice to develop legislation)--OMB recommendation

_____ Option 4 (support of H.R. 3686 and authorizing staff to work for technical improvements--Department of Justice recommendation)

Additional instructions:
MEMORANDUM

FROM: Rick Hutcheson, Staff Secretary
FOR ACTION: Stu Eizenstat
Jack Watson


YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:
TIME: 11:00 A.M.
DAY: Friday
DATE: April 29, 1977

ACTION REQUESTED:

Your comments
Other: 

STAFF RESPONSE:

I concur.
Please note other comments below: No comment.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.
If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone: 7552)