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INFORMATION

THE WHITE HOUSE

WASHINGTON

May 9, 1975

MEMORANDUM FOR THE PRESIDENT

FROM : JIM CANNON Jim

SUBJECT : Secretary Weinberger's Recommendations on Social Security

Attached is Secretary Weinberger's summary memorandum coveying his recommendations on how to deal with the short term (5 year) and long term (1980 - 2000) financing problems facing the Social Security system.

The Secretary must testify on May 20 before Ways and Means on these issues and is seeking specific decisions on the short term options prior to that date.

We have asked appropriate Cabinet Members and your senior advisers for comment and will have an option paper on the short term issues for your consideration on May 16.

We intend, as the Secretary suggests, to develop long term proposals over the next few months. These proposals will be ready for your consideration by the end of the year.

Attachments

May 2, 1975

MEMORANDUM FOR THE PRESIDENT

FROM : Caspar W. Weinberger

SUBJECT: Social Security

I have been called before the Congress later this month to testify on the Administration's position on the short-term financing problem in the social security system and the longer term financial and structural problems and prospects for social security. In addition, the Administration has not yet, but should react more comprehensively to the Social Security Advisory Council report delivered to you and the Congress (and made public) in March. You and I commented unfavorably on its recommendation to finance Medicare from general revenues, and have indicated general endorsement of some revision in the future benefit structure. We have not, however, reacted to its other recommendations on benefits and coverage, or to its specific proposals for solving short- and long-term financial deficits.

This memorandum highlights a somewhat longer decision memorandum that is attached.

Background

There is a serious short-term financing problem in social security cash benefit programs. This problem was understated in the Advisory Council report, but later cost estimates are now available, and are known publicly. The forthcoming Trustees Report will underscore it. Given current projects and current law, outgo exceeds income by a widening margin so that reserves, now 66 percent of annual outgo, dwindle to nothing in the early 1980's.

These problems arise because the social security system is exceedingly sensitive to changing economic conditions. The recent high inflation rates followed by recession have caused large unanticipated reductions in income and increases in outgo. Also Congress has increased benefits by about 70% in the last 5 1/2 years.

Beyond the near-term problems, there are a series of interrelated financing issues. These issues are caused by the demographic shift

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toward a proportionately larger aged population as a result of falling birth rates, and by the current computational structure for social security benefits which automatically adjusts the benefits of future retirees in such a way as to overcompensate for inflation.

The Congress is aware of these issues, and plans to debate the near-term issue soon. The relevant committees have initiated a review on a more deliberate schedule of the long-term issue. The Advisory Council has offered its solution. Many ideas, including general fund financing, exist in the Congress. A debate of immense importance is under way.

Discussion

The first problem at hand is near-term financing. In brief, we need more revenue, even though current law provides for some increases in the future. (The earnings base on which payroll taxes are collected goes up for both social security cash benefits and Medicare under the indexing features of current law. Medicare also has a small payroll tax rate increase scheduled in law for 1978.) In my opinion, the realistic alternatives for increasing revenues are a small increase in payroll tax rates, an increase in the payroll tax earnings base, or a combination thereof. While the Advisory Council recommended general revenue financing, I strongly believe that we should continue to maintain our stance against it. I regard the Advisory Council recommendation as a first step toward destroying the discipline of connecting benefits and taxes.

The timing of the increase in revenues is partly judgmental, but is strongly determined by the perception of how large or how small the reserve should be. Not long ago, we thought it should be 75-100 percent of annual outgo. There is no "right" number, but I think less than about 30 percent would not suffice in recessionary periods and would begin to erode public confidence in the system. If this is correct, then increased revenues should start to flow in 1977. In addition, the longer we wait to increase revenues, the higher and sharper the increases in any one year must be.

We also need to grapple with the long-term issues, correctly identified by the Advisory Council. There is a substantial consensus that we need to stabilize the future benefit structure, but the Advisory Council solution is only one of many. Like the Congress seems prepared to do, I believe we should work our way carefully through this problem, looking toward a proposal to Congress next January. With respect to other Advisory Council recommendations on benefits and coverage, I think we should openly set those aside for now as too costly to consider. I would make an exception for those low-cost items related to unequal treatment of men and women, particularly in light of the recent Supreme Court decision in this area.

The final area of concern relates to the timing of Administration proposals to solve the short-term financing problem. I believe we must take a position on this subject. We do, however, have the choice of announcing now our specific proposals for increasing short-term revenues and waiting until next year to put forward long-range solutions, or alternatively acknowledging the issues now and announcing all our proposals in January. The advantages of proceeding now with a specific proposal include: attempting to lead the debate, preempting or competing early with other solutions we would oppose, and avoiding a new tax increase proposal in 1976. Waiting would allow us to tie the short- and long-range proposals together in one comprehensive Administration plan.

Recommendations

In the attached memo which contains the specific decision options, I am recommending that you choose the following:

- Adopt a specific proposal now to deal with the short-term financing problem (through 1980). The proposal would adjust upward the earnings base beginning in 1977 but would not alter the combined social security/Medicare payroll tax rate currently scheduled in law.

- Reconfirm endorsement of need for legislation to stabilize future benefit structure and proceed with studies of alternative ways of accomplishing this. Ignore other Advisory Council financing recommendations that are based on cost estimates that are now out of date.

- With the exception of selected measures on equal treatment, set aside for now Advisory Council recommendations on benefits and coverage in light of economic conditions and the overriding importance of the short- and long-term financing problems.

Caspar W. Weinberger
Secretary

Attachment