SOCIAL SECURITY: WHAT CHANGES ARE NECESSARY?

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SOCIAL SECURITY: WHAT CHANGES ARE NECESSARY?

THURSDAY, DECEMBER 4, 1980

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee convened, following the recess, at 10 a.m., in room 6226, Dirksen Senate Office Building, Hon. Lawton Chiles, chairman, presiding.

Present: Senator Chiles.

Also present: E. Bentley Lipscomb, staff director; John A. Edie, chief counsel; David A. Rust, minority staff director; Deborah K. Kilmer, legislative liaison; Eileen M. Winkelman and Betty M. Stagg, minority professional staff members; Marjorie J. Finney, correspondent; Fred Becker, intern; and Eileen Bradner, clerical assistant.

OPENING STATEMENT BY SENATOR LAWTON CHILES, CHAIRMAN

Senator CHILES. Good morning, and welcome to the fourth hearing in our series entitled, "Social Security: What Changes Are Necessary?"

Our focus today is twofold.

First, we plan to take a look at public attitudes toward social security, and we are indeed pleased to have with us this morning representatives from some of the most respected national survey organizations: Louis Harris & Associates, Peter D. Hart Research Associates, and the National Opinion Research Center.

At least three national opinion polls have recently focused on issues important to social security and the broader questions of retirement income. Through daily correspondence and visits to our home States, all members of this committee receive input on a constant basis about social security.

We are particularly interested to know what professionals in the field of opinion survey can tell us about public attitudes, and what they can tell us about the country's concerns about inflation and taxes, and how this might affect our efforts to improve the financial picture of social security.

Our final witness today is William J. Driver, Commissioner of the Social Security Administration. We have asked Mr. Driver to bring us up to date on several issues from his perspective. Specifically we are anxious to know:

One: What is the status of the short-range cash-flow problem facing the social security trust funds.

Two: What proposed solutions to this pending crisis should be considered.

Three: How serious does the Administration view the long-term deficit problem; and

Four: What steps should Congress be taking next year to begin addressing the long-term issues.

Our hearings thus far have reviewed most of the recommendations now under review to adjust the present social security system. Our witnesses today hopefully will provide different yet valuable new insights into the issues we face.

Before going to our witnesses, Senators Pete V. Domenici and John Heinz have submitted statements for the record, which will be entered at this time.

[The statements of Senators Domenici and Heinz follow:]

STATEMENT OF SENATOR PETE V. DOMENICI

I am pleased to be here this morning to participate in the final session of this series of hearings on "Social Security: What Changes Are Necessary?"

Throughout this series of hearings we have heard innovative new ideas, additional support for existing programs, and thought-provoking discussion and debate. I feel that this dialog will contribute a great deal to our grasp of these complex issues which inevitably face us in the 97th Congress. However, in hearing from economists, attorneys, actuaries, and advocacy organizations, we are not hearing directly from the American public. The level of public understanding of the social security system and comprehension of its problems in the future and at present, is a critical element in this decisionmaking process.

Of course, we hear from many of our constituents some of the same reactions which have been obtained in these polls and surveys.

—Most people feel that the payments from social security are too low.

—Most people acknowledge that social security was never intended to provide total retirement income and yet they expected more and are surprised and disillusioned about their meager benefit.

—There are widely varying levels of understanding about the system.

—Social security has been one of the most successful endeavors of the Federal Government. For the most part its programs get high marks among the American people and they would like it to continue very much as it is.

The problem is that it might be impossible to continue the program without significant alteration. If changes have to be made, it is important for all of us to know what changes the American people are the most likely to understand and to accept. The results of polls and surveys, such as those conducted by the organizations represented by our witnesses today, provide us with a needed view from a broadly based and national perspective. I am indeed interested in their findings regarding confidence in the social security system, understanding of how it operates and the role that it plays in the overall retirement income picture.

I also look forward today to the testimony of William Driver, Commissioner of the Social Security Administration. His reflection on the foregoing testimony and recommendations which we have received will give us informed guidance as to how these might best be adopted and which ones might be the most appropriate solutions to the social security problems.

STATEMENT OF SENATOR JOHN HEINZ

Mr. Chairman, I want to commend you, and our Aging Committee staff, for holding what has proven to be an excellent series of hearings on one of the most vital issues facing America today—the future financial security of our retired citizens.

Through these hearings, we have been seeking answers to the problems facing an important aspect of their total security picture—the long-term integrity of our social security system. What we have heard will ultimately give us a sound basis for future decisions.

Today's hearing will provide us with valuable information on two additional critical factors that we will have to consider if those decisions are to be successful.

Our first consideration here will be the needs—both real and perceived—of the American people. In essence, what they expect from our national retirement insurance system—and what they are willing to do to finance it.

Of equal importance is what can actually be accomplished from both a financial and an administrative point of view. I've looked over the studies of the President's Commission on Pension Policy, Lou Harris, and Peter Hart. And I must say that I interpret their findings to emphasize the gap that often exists between the needs of our citizens and the ability of the present system to meet those needs.

When four out of five workers have lost confidence in what social security can do for them, and when only one in three Americans expect to live comfortably in retirement, the problem is obvious.

These studies also bring up another, less obvious need—the importance of educating all our citizens, young and old, about our retirement insurance program.

We must make certain that the American people fully understand the nature of the program—what it was intended to do—and the difficult decisions that will have to be made to keep it solvent.

Today's hearing will shed light on the administrative and financial factors that will be integral to any social security financing decisions. I am deeply interested in the testimony of Mr. Driver—to hear the perceptions and recommendations of the Social Security Administration as to the capability of the system to implement proposed funding changes.

As we prepare to take action on social security in the 97th Congress, the findings of this committee will be at the very heart of any action we might take.

They will help us respond more compassionately to the needs of today's retired workers—and to those who will become the retired workers of tomorrow.

I look forward to hearing from each one of you as we begin working together to find the best answers to maintain the integrity of our social security system.

Senator CHILES. First, I want to call on Humphrey Taylor of Louis Harris & Associates, and ask him if he will lead off our panel this morning.

STATEMENT OF HUMPHREY TAYLOR, NEW YORK, N.Y., DEPUTY CHAIRMAN AND CHIEF OPERATING OFFICER, LOUIS HARRIS & ASSOCIATES

Mr. HUMPHREY TAYLOR. Thank you, Mr. Chairman.

I greatly appreciate this opportunity to present the findings of recent surveys conducted by Louis Harris & Associates on issues related to the future of the social security system. Our data touches on many, but not by any means all, of the key questions you are considering here today. Of course, at the outset I must say that after living 4 years in this country, I hesitate to stand or sit here and tell you what the American people are thinking. I feel a little better about this since I was in California the other day, and I talked to my neighbor and he asked me, "Where do you live?" I said, "New York." And he said, "Oh, yes, I thought so." [Laughter.]

Perhaps I should start with a very brief word about the mood of the country. In our surveys this year, we have found a definite movement to the right on fiscal issues and in attitudes to Government spending, if not on issues which did not involve Government spending, such as ERA, gun control, or abortion. My colleagues and I interpret the November election results partly as a vote against an administration and a Congress which was perceived to have failed, and partly as a vote against big government. I don't have to tell you that the Federal Government is widely viewed as too large, too wasteful, and too pervasive.

However, when we look more closely at our data, it is clear that it would be a serious mistake to interpret this mood as a mandate for cutting social programs in general, or the social security program in particular. Indeed, the first set of findings I must report to you point up the importance most Americans, of all ages, attach to maintaining a strong social security system.

In a survey[1] conducted the week after the November election, a 62 to 33 percent majority, almost 2 to 1, of the public opposed "a cut in social security taxes, accompanied by a reduction in certain benefits." Last June, a virtually identical 61 to 34 percent majority felt identically, as did a 61 to 32 percent majority in the fall of 1979.

The reason for the willingness of taxpayers to endure higher social security taxes stems from the shock a few years back when people discovered that social security funding was in real trouble. Most people had thought that when they paid their social security taxes each year, these payments were in some way earmarked and set aside for them. There simply was no widespread understanding that social security was financed on a current basis out of General Treasury funds.

Thus, when the new stiff increases in social security taxes were proposed, the public surprisingly welcomed them, not because any increased tax levy is popular, but rather as a desperate step to put social security on a sound financial footing.

While majorities of all demographic groups oppose a cut in social security taxes and benefits, there are some quite large differences between the replies of different demographic groups. The older people are, and the less affluent they are, the more likely they are to oppose cuts. Conversely the more affluent and the younger people are, the more they favor cuts.

But even among those under 30, a 57 to 42 percent majority oppose cuts, as do a 57 to 40 percent majority of people with household incomes of over $25,000 a year.

Further confirmation of the importance attached to a strong social security system was found in our 1978–79 survey on "Pensions and Retirement" conducted for Johnson & Higgins.

Although current employees were generally opposed to higher taxes, they believed that money should be found—through taxes if necessary— to help current retirees keep up with inflation. In light of the impact of inflation on retirement incomes, and in spite of the fact that it would cost them more money, 56 percent of those currently employed full time felt that more money should be collected from working people to help retirees keep up with inflation. Only 11 percent thought that retirees should do the best they could on the pensions and social security benefits unadjusted for inflation. This very strong commitment to the social security system is likely, if anything, to increase as the population gets older and the proportion of the population over 65 continues to increase.

But most people do not take the continued existence of a strong social security system for granted. Indeed there is widespread concern about its future. Only 15 percent of current employees told us, in the 1979 study, that they had a great deal of confidence that the social security system would be able to pay them benefits when they retired, 40 percent said they had some confidence, while 42 percent said they had hardly any confidence they would receive their social security benefits when their time came.

One reason for this concern was that most people doubted—to a greater or lesser extent—the willingness of future generations to pay

[1] The ABC-Harris survey.

higher taxes to enable them to receive their benefits. Inflation aggravates this concern, along with many others. In a survey conducted in September 1979, the proportion of the working population looking forward to retirement had fallen to only 45 percent, while those who anticipated that their retirement income would be very or somewhat adequate for their needs had fallen 19 percentage points from 70 percent a year earlier to 51 percent.

Of course, inflation affects the social security system in many different ways both financial and attitudinal. It was to protect senior citizens against inflation that benefits were inflation linked. Of course one of the issues you are addressing is whether to discontinue this linkage, to allow benefits to rise more slowly than inflation.

On this issue our data is extremely clear. Whatever the cost, the American people are deeply committed to inflation-proof benefits.

In the 1979 study we asked whether, over the next 5 years, social security benefits should be reduced, kept the same, increased with the cost of living, or increased faster than the cost of living. The overwhelming majority, 80 percent, said "increased with the cost of living," while 6 percent said "increased faster than the cost of living." Only 11 percent said "kept the same" or "reduced."

Further confirmation of this finding was found in questions [1] asked about pension plans in general. When asked to choose between five different important characteristics of pension plans, "having a pension which goes up with the cost of living" was widely perceived to be the most important and desirable asset in a pension.

In practice very few private pension plans can provide this security during a period of high inflation, and their failure to do this further increases dependence on social security payments. None of these plans understand that social security is intended to provide only a basic level of income as supplemented with other sources of income. Most people believe that social security alone will not provide enough to live on. The bulk of the people we interviewed believe that providing a basic level of retirement income is the proper role of social security.

If one considers their lack of confidence in social security's ability to pay benefits for the future retirees, it comes as no surprise that current employees lose the enthusiasm for providing for social security. By 1976, 17 percent of the majority of current and retired employees feel that social security's proper role should be to provide a basic level of retirement income.

Some demographic variations occur, however, in lower income groups are most likely to feel that all retirement income should be provided through social security although the notion is supported by no more than one in five, even those on the $15,000 a year. And generally speaking there is not a great deal of variation in the public attitude toward the proper role of social security regardless of age or group.

All of the data I have mentioned so far presents a bleak and, I am sorry to say, a rather unhelpful picture, of a public unwilling to see any reduction in the social security system, notwithstanding its strongly held view that Government is too big, and Government expenditure and taxes too high.

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[1] "Pensions and Retirement," a survey conducted by Louis Harris & Associates in 1978 and published in 1979 by Johnson & Higgins.

Fortunately we have some other data [1] which do suggest a real opportunity for reducing the growth in social security costs. Unfortunately we have not explored the policy implications very fully in our survey so my conclusion must be somewhat tentative.

One key trend of which you are very much aware is the increased number of people who are, or who will, continue to work beyond the traditional age of retirement, partly because of the abolition of mandatory retirement at 65, and partly in response to the growing concern about making ends meet on a modest or fixed income at a time of high inflation. Of all the findings, 46 percent, almost half of all those who were already retired, told us that they would not prefer to have been working. Only 50 percent said they preferred to work.

Between July 1978 and September 1979, the proportion of the working public who planned to retire at, or below their normal retirement age fell from 55 to 46 percent, while those planning to continue working full time or part time increased from 41 to 49 percent. I would expect this trend to have continued through 1980 and to go on continuing through the next few years.

Another related trend concerns the changing nature of employment. It is, I think, a very safe prediction that, during the 1980's, more and more people will work in service industries and white-collar jobs, and there will be fewer blue-collar workers and fewer people working in manufacturing jobs. It is, of course, these growing areas which are less demanding physically for which older workers are most suited.

There are obviously several different things which the Congress can do to encourage this trend and to take advantage of it to reduce the benefits paid by—or increase the revenues payable to—the social security system. The simplest, most obvious, and most effective, would be to raise the age at which social security benefits are payable.

Other policies involving the nonpayment of benefits only to those who continue to work, or continued contributions by and for those working, clearly run the risk of being self-defeating in that they will discourage employment or at least purported employment beyond the age of 65. Presumably they would also result in much more modest savings than a general increase in the qualifying age.

Now we do not have any data which would enable us to predict public response to alternative policies of this kind, or to the effects of these policies on social security taxes and benefits. However, I can offer a personal opinion, for what little that's worth, which is, that a gradual increase in the qualifying age would be the least unacceptable—and therefore the most acceptable—policy. It would certainly be much less offensive to the American people than any reduction in benefits or the end of inflation-linked benefits.

Another issue is whether or not to fund social security from general tax revenues. We did not find a consensus on this point.

The primary concern of most people is to insure the financial viability of the system; how this is done, if I may throw the ball back to you, is up to Congress.

Senator CHILES. Thank you, sir.

Mr. Garin.

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[1] "The Harris Perspective."

STATEMENT OF GEOFFREY D. GARIN, WASHINGTON, D.C., VICE PRESIDENT, PETER D. HART RESEARCH ASSOCIATES, INC.

Mr. GARIN. Mr. Chairman, I appreciate your invitation to appear before this committee today and review the major findings of our in-depth survey of the public's attitudes toward social security. This study was conducted by Hart Research on behalf of the National Commission on Social Security, and I believe the committee has a copy of the full, detailed report we prepared for the Commission's use. The interviews for this survey were conducted between November 16 and 29, 1979, with a scientifically selected random sample of 1,549 adult Americans.

I would like to summarize the major points contained in my prepared statement, which I have submitted for the record.

Senator CHILES. Your full statement will be made part of the record.[1]

Mr. GARIN. Thank you. Four broad subjects explored in our survey strike me as being especially important.

First: I want to stress the enormous extent to which Americans have come to rely on social security in planning for their personal financial well-being, and in this regard I want to make special note of the fact that the public generally wants social security to play an even greater role than is currently the case in insuring financial security during retirement.

Second: I would like to review the public's basic attitudes toward social security—which tend to be more positive than negative, and which generally are based on a good working knowledge of what the social security system is all about.

Third: I want to outline our findings about how the public regards current levels of social security taxation and the tradeoff between benefits and taxes—a tradeoff which tends to be overwhelmingly decided in favor of maintaining current benefit levels.

Finally, I would like to briefly recount our findings on the public's reactions to different ideas for reforming the way social security is financed.

One of the most critical findings of our survey is the extraordinary degree to which Americans have come to rely on social security as a centerpiece of their financial security in retirement. Nearly all working Americans, 91 percent, expect to receive social security benefits when they retire, but more importantly, fully 60 percent say that social security will be a major source of their retirement income. Among people who are already retired, three out of four say that social security is now a major source of their income. No other resource comes close to matching social security in the number of people who expect to, or currently depend on it, to meet their financial needs during retirement.

Among all nonretirees, the median share of retirement income expected from social security—that is, the point at which half the respondents expect to receive more—is 46 percent. Not surprisingly, this

[1] See page 271.

figure declines as family income rises—those earning under $17,500 a year, expect social security to provide more than half of their retirement income, and those earning over $25,000 a year predict that social security will account for 33 percent of their livelihood during retirement.

In short, social security touches the lives of the vast majority of Americans in ways that directly affect their share of personal financial well-being. This sense of personal reliance on social security provides the central context for all our other findings regarding the way Americans think about the future of social security.

In discussing Americans' perceptions of the role of social security, we should note that there is widespread understanding of the underlying philosophy of the social security system. By a margin of 65 to 22 percent, for example, Americans know that social security is not designed to serve as the sole source of retirement income. However, these same people reject that philosophy and say by a margin of 61 to 34 percent that social security retirement benefits should provide enough money to meet the basic needs and obligations of retired people.

This is one of the few instances in our survey when a solid majority indicate that they want to see a major feature of the social security system changed. This result may be rooted in the fact that only 31 percent say their retirement income will be enough to allow them to live comfortably, and 28 percent say their retirement income will not be enough to pay their monthly bills and obligations. In a time of persistent and high inflation, Americans are deeply worried about their future, and it is obvious that they look to social security for more protection against the economic vicissitudes they face.

Nearly all Americans have some working knowledge of social security, with just 6 percent unable to volunteer any substantive comment about the system. Overall, 87 percent have something good to say about social security, and 72 percent offer criticisms. While most Americans have both good and bad comments about the system, positive remarks were volunteered in our survey more frequently than negative remarks by a margin of 3 to 2. The heart of social security's positive image is based on the benefits it provides—particularly retirement benefits.

If the kind of benefits provided by social security represents the positive side of the public's perceptions of the program, the level of benefits now provided represents the major source of criticism—with 51 percent volunteering complaints that benefits are too low, too difficult to collect, or are subject to too many restrictions. Let us emphasize—when Americans think about what is wrong with social security today, they are much more inclined to think about benefit levels than tax levels. Only 9 percent overall volunteer that social security takes too much out of a wage earner's paycheck.

Most Americans are well aware that social security benefits have risen significantly in the past 10 years and most expect that benefits will continue to rise significantly in the decade ahead. It may be that they don't recognize just how greatly they have increased, however; when asked to describe the size of the increase, respondents say that the benefits have risen somewhat rather than greatly. Now that may not be the best way to characterize an 140-percent increase. [Laughter.]

There is some confusion in the public's mind, however, about whether social security benefits increase automatically with the cost of living.

In one of the few instances in which a substantial proportion of the population has a mistaken impression of how social security works, 45 percent say that benefits go up automatically to match the rise in the cost of living, and 39 percent say this is not the case; among nonretirees, more people give the wrong answer than the right one.

Americans have one other major concern about social security—its fiscal stability. Fully 62 percent of all Americans who are not yet retired have little or no confidence that the funds will be available to provide retirement benefits for them when their retirement age arrives, compared to 32 percent who express complete confidence or a great deal of confidence. Doubts about the future of social security are expressed by almost three-quarters of those between the ages of 25 and 44.

Despite their concern about the future of social security and complaints about benefit levels, the public's bottom line view of the system is clearly supportive. If given a choice, fully 77 percent say they would be in the social security system and pay taxes, while only 19 percent say they would leave the system and not pay taxes. Among nonretirees, 72 percent say they would voluntarily opt to be a part of the social security system. This sort of support for social security declines as family income rises; among nonretirees earning over $22,900, for example, 57 percent say they would stay in, and 38 percent say they would leave the system.

Unlike many other Federal programs, which lack the breadth and intimacy of social security's effect on the public's sense of well-being, social security stands out as a Government endeavor about which most Americans feel that the advantages justify the costs.

Most Americans realize that social security taxes have increased greatly in the past 10 years, and the majority expect further substantial increases in the next 10 years. Despite this perspective, however, fully 66 percent of the public say they have little or no objection to paying the social security tax—including 43 percent who say they have no objection at all.

None of the three other types of taxes we tested encounters so little resistance. Nonretirees with family incomes over $22,900 are more likely to have strong objections than are those with family incomes under $22,900. But even in the upper-income group a majority, 55 percent, say they have only slight objections to paying social security taxes. After we explained that at the time of the survey the social security tax on earnings up to $22,900 was 6 percent for the employee and 6 percent for the employer, 48 percent of all nonretirees say this level seems about right to them, while 29 percent say it seems too high, and 12 percent say it seems too low.

So a vast majority of 60 percent are saying too long or about right or too low, while 41 percent of nonretirees, who pay the highest taxes, those with incomes over $22,900, say that the social security tax bite is too large. Even a majority of this group, 53 percent, say that the current level strikes them as about right or too low. In short, even given the information about what they are paying into social security today, we find no strong signs of a raging revolt against the payroll tax rate for social security.

There is an obvious tradeoff between social security taxes and the level of the system's benefits. When the choice is between raising taxes or lowering benefits, the large majority of Americans decide this tradeoff in favor of paying more, 63 percent, rather than getting less, 15 percent. When asked to react to a proposal to lower retirement benefits to avoid increased taxes, fully 69 percent oppose the proposal, including 52 percent who oppose it strongly. Opposition is a majority phenomenon among all age and income groups. The clear conclusion from these results is that the public sense of reliance on social security runs sufficiently deep to make even higher taxes a worthwhile investment.

From our subjective perspective, let us hasten to add that we do not construe these findings as giving Congress carte blanche to dramatically increase social security taxes in the years ahead. While we think the public would be understanding if the case is clearly made that higher taxes are needed for a stable, solvent system which pays adequate benefits, we would guess that Americans might well react more negatively if they come to believe Congress is doing too little to insure efficient, sound management of the trust fund or that higher taxes will not produce a system in which Americans can have confidence.

In our survey we explored the public's attitudes toward a variety of possible methods for putting the social security system on a sounder financial footing. Let me briefly review some of the major findings here.

By a margin of 51 to 36 percent the public opposes a proposal to delay by 3 years the age at which retirement benefits would be paid, even when it is explicitly stated that the change would not take effect for 20 years and the alternative is increasing taxes; 34 percent oppose this idea strongly while 15 percent strongly favor it. The opposition is particularly strong among the middle-aged group who would just be hitting that 20-year figure, but there is somewhat less resistance among people under aged 35.

Voters are divided about a proposal to restructure social security so that medicare is paid out of general revenues; when the choice is between raising other Federal taxes to pay for medicare or increasing social security taxes, 43 percent favor finding a new funding source for the health insurance program and 35 percent oppose this idea.

Regarding the types of taxes which the public prefers for social security funding, respondents say by a margin of 49 to 26 percent that they would choose increases in payroll taxes over increases in the Federal income tax to pay for social security benefits. The margin is somewhat smaller when the alternative is a national sales tax. There, 45 percent say they would prefer higher payroll taxes and 31 percent say they would prefer starting a national sales tax.

We gave respondents a list of 13 different types of benefits that are now being paid by social taxes. When asked which, if any, they think should not be paid for at all by Government, 42 percent of the public say that none should be abandoned, and another 10 percent do not select any because they are not sure. There is some support for eliminating benefits paid to students under certain circumstances—particularly benefits to a full-time student whose parent has retired, cited by 40 percent as a candidate for elimination.

One drastic proposal which Americans broadly reject is the idea of ending the social security program altogether. Fully 76 percent oppose this idea, including 67 percent who strongly oppose it, while just 17 favor it.

Thank you.

Senator CHILES. Thank you, sir. Your prepared statement will be entered into the record now.

[The prepared statement of Mr. Garin follows:]

PREPARED STATEMENT OF GEOFFREY D. GARIN

Mr. Chairman, I appreciate your invitation to appear before this committee today and review the major findings of our in-depth survey of the public's attitudes toward social security. This study was conducted by Hart Research on behalf of the National Commission on Social Security, and I believe the committee has a copy of the full, detailed report we prepared for the Commission's use. The interviews for this survey were conducted between November 16 and 29, 1979, with a scientifically selected random sample of 1,549 adult Americans. The sample included 434 respondents who live in households where the main wage earner is retired from the work force. The interviews were administered in-person in the respondent's homes, using a questionnaire which required approximately 50 minutes to complete.

The study we conducted for the National Commission is probably the most extensive examination of the public's perceptions and attitudes about the social security system that has ever been undertaken. We attempted to take as thorough a look as possible at the public's knowledge and understanding of the system, the role Americans expect social security to play in their own lives as well as the role they want it to play, and the sources of both satisfaction and discontent with social security. Though much of the survey focused on retirement and old-age assistance, we also explored a variety of issues related to disability and survivors' benefits. In our survey, we obviously paid a great deal of attention to the financing of social security—including the public's confidence in the fiscal stability of the system, attitudes toward social security taxes, and reactions to various proposals for changing the way the social security system is financed.

I think I can be most helpful to the committee by concentrating on four key topics in my statement.

First, I want to stress the enormous extent to which Americans have come to rely on social security in planning for their personal financial well-being, and in this regard I want to make special note of the fact that the public generally wants social security to plan an even greater role than is currently the case in insuring financial security during retirement.

Second, I would like to review the public's basic attitudes toward social security—which tend to be more positive than negative, and which generally are based on a good working knowledge of what the social security system is all about.

Third, I want to outline our findings about how the public regards current levels of social security taxation and the tradeoff between benefits and taxes—a tradeoff which tends to be overwhelmingly decided in favor of maintaining current benefit levels.

Finally, I would like to briefly recount our findings on the public's reactions to different ideas for reforming the way social security is financed.

THE ROLE OF SOCIAL SECURITY

One of the most critical findings of our survey is the extraordinary degree to which Americans have come to rely on social security as a centerpiece of their financial security in retirement. Nearly all working Americans (91 percent) expect to receive social security benefits when they retire, but more importantly, fully 60 percent say that social security will be a major source of their retirement income. Among people who are already retired, three out of every four say that social security is now a major source of their income. No other resource comes close to matching social security in the number of people who expect to, or currently depend on it, to meet their financial needs during retirement. In contrast to the 60 percent of nonretirees who say that social security will be a major source of their retirement income, 39 percent point to personal savings of any sort, and 35 percent identify private pension plans as major sources of economic security in their retirement. Only among nonretirees with family incomes over $25,000 is social security overshadowed by other sources of expected retirement income. Though there is some evidence in our survey that Americans under age 35 are more likely than their elders to have the benefit of a pension, even these workers still plan to have a major reliance on social security.

Another result which clearly establishes the key role Americans assign to social security is that fully 63 percent of all nonretirees and 68 percent of all retirees say that social security will or already does provide more than four-tenths of their total retirement income. These figures include 21 percent of all working Americans who expect social security to provide six-tenths or more of their retirement income, and 50 percent of all retired Americans who say that social security now provides well over half of their financial resources. Among all nonretirees, the median share of retirement income expected from social security is 46 percent. Not surprisingly, this figure declines as family income rises—those earning under $17,500 a year expect social security to provide more than half of their retirement income, and those earning over $25,000 a year predict that social security will account for 33 percent of their livelihood during retirement.

In short, social security touches the lives of the vast majority of Americans in ways that directly affect their sense of personal financial well-being. This sense of personal reliance on social security provides the central context for all our other findings regarding the way Americans think about the future of social security.

In discussing Americans' perceptions of the role of social security, we should note that there is widespread understanding of the underlying philosophy of the social security system. By a margin of 65 to 22 percent, for example, Americans know that social security is not designed to serve as the sole source of retirement income. However, these same people reject that philosophy and say by a margin of 61 to 36 percent that social security retirement benefits should provide enough money to meet the basic needs and obligations of retired people. The desire for social security to play an even greater role in insuring that retired people have the means to make ends meet is more pronounced among Americans who are still in the work force than among those who have already retired. This is one of the few instances in our survey when a solid majority indicate that they want to see a major feature of the social security system changed. This result may be rooted in the fact that only 31 percent say their retirement income will be enough to allow them to live comfortably and 28 percent say their retirement income will not be enough to pay their monthly bills and obligations. In a time of persistent and high inflation, Americans are deeply worried about their future, and it is obvious that they look to social security for more protection against the economic vicissitudes they face.

BASIC PERCEPTIONS OF SOCIAL SECURITY

Nearly all Americans have some working knowledge of social security, with just 6 percent unable to volunteer any substantive comment about the system. Overall, 87 percent have something good to say about social security and 72 percent offer criticisms. While most Amerians have both good and bad comments about the system, positive remarks were volunteered in our survey more frequently than negative remarks by a margin of 3 to 2. The heart of social security's positive image is based on the benefits it provides—particularly retirement benefits. Fully 59 percent describe social security as a program which helps the elderly and the retired, while 13 percent add that it provides income security and 8 percent say that many people would not be able to survive without it. Beyond retirement assistance, other advantages which are volunteered include: Disability benefits (13 percent), medical benefits (12 percent), benefits to children of deceased or disabled workers (12 percent), widows' benefits (7 percent), and survivors' benefits (7 percent).

If the kind of benefits provided by social security represents the positive side of the public's perception of the program, the level of benefits now provided represents the major source of criticism—with 51 percent volunteering complants that benefits are too low, too difficult to collect, or are subject to too many restrictions. Let us emphasize: When Americans think about what is wrong with social security today, they are much more inclined to think about benefit levels than tax levels. Only 9 percent overall volunteer that social security takes too much out of a wage earner's paycheck.

We have already noted that most Americans want to change the structure of social security so that benefits are at least sufficient to provide for the basic needs of retirees. In this regard, we should also point out that most Americans are well aware that social security benefits have risen significantly in the past 10 years and most expect that benefits will continue to rise significally in the decade ahead. There is some confusion in the public's mind, however, about whether social security benefits increase automatically with the cost of living. In one of the few instances in which a substantial proportion of the population has a mistaken impression of how social security works, 45 percent say that benefits go up automatically to match the rise in the cost of living, and 39 percent say this is not the case; among nonretirees, more people give the wrong answer than the right one. Large pluralities realize that social security pays disability, survivor, and medical benefits, and that it does not pay for food stamps. For the most part, Americans recognize that the system pays higher benefits to those who have earned more and paid more in taxes, and the vast majority believe that this is indeed the way the system should work.

Aside from complaints about benefit levels, Americans have one other major concern about social security—its fiscal stability. Fully 62 percent of all Americans who are not yet retired have little or no confidence that the funds will be available to provide retirement benefits for them when their retirement age arrives, compared to 32 percent who express complete confidence or a great deal of confidence. Doubts about the future of social security are expressed by almost three-quarters of those between the ages of 25 and 44.

Despite their concern about the future of social security and complaints about benefit levels, the public's bottom-line view of the system is clearly supportive. If given a choice, fully 77 percent say they would be in the social security system and pay taxes, while only 19 percent say they would leave the system and not pay taxes. Among nonretirees, 72 percent say they would voluntarily opt to be a part of the social security system. This sort of support for social security declines as family income rises; among nonretirees earning over $22,900, for example, 57 percent say they would stay in and 38 percent say they would leave the system.

SOCIAL SECURITY TAXES

In many other surveys we have conducted across the nation, we have found a substantial degree of resentment about the Federal Government's use of taxes for various programs, because the public frequently does not perceive any real connection between the taxes they pay and the benefits they receive. This is not the case with social security. Unlike many other Federal programs, which lack the breadth and intimacy of social security's effect on the public's sense of well-being, social security stands out as a Government endeavor about which most Americans feel that the advantages justify the costs.

Most Americans realize that social security taxes have increased greatly in the past 10 years, and the majority expect further substantial increases in the next 10 years. Despite this perspective, however, fully 66 percent of the public say they have little or no objection to paying the social security tax—including 43 percent who say they have no objection at all. None of the three other types of taxes we tested encounters so little resistance. Nonretirees with family incomes over $22,900 are more likely to have strong objections than are those with family incomes under $22,900. But even in the upper income group, a majority, 55 percent, say they have only slight objections to paying social security taxes. After we explained that at the time of the survey the social security tax on earnings up to $22,900 was 6 percent for the employee and 6 percent for the employer, 48 percent of all nonretirees say this level seems about right to them, while 29 percent say it seems too high, and 12 percent say it seems too low. While 41 percent of nonretirees who pay the highest taxes (those with incomes over $22,900) say that the social security tax bite is too large, even a majority of this group, 53 percent, say that the current level strikes them as about right or too low. In short, we find no strong signs of a raging revolt against the payroll tax rate for social security.

There is an obvious tradeoff between social security taxes and the level of the system's benefits. When the choice is between raising taxes or lowering benefits, the large majority of Americans decide this tradeoff in favor of paying more (63 percent) rather than getting less (15 percent). When asked to react to a proposal to lower retirement benefits to avoid increased taxes, fully 69 percent oppose the proposal—including 52 percent who oppose it strongly. Opposition is a majority phenomenon among all age and income groups. The clear conclusion from these results is that the public sense of reliance on social security runs sufficiently deep to make even higher taxes a worthwhile investment. From our subjective perspective, let us hasten to add that we do not construe these findings as giving Congress carte blanche to dramatically increase social security taxes in the years ahead. While we think the public would be understanding if the case is clearly made that higher taxes are needed for a stable, solvent system which pays adequate benefits, we would guess that Americans might well react more negatively if they come to believe Congress is doing too little to insure efficient, sound management of the trust fund or that higher taxes will not produce a system in which Americans can have confidence.

ALTERNATIVES TO CURRENT SOCIAL SECURITY FINANCING

In our survey, we explored the public's attitudes toward a variety of possible methods for putting the social security system on a sounder financial footing. Before we review these results, we should note that the general public obviously does not have all the information which is necessary for making a fully considered judgment on these complex matters, and attitudes might well change as the public discussion of these issues becomes more extensive. Having offered this caveat, we still believe the results are instructive for understanding where Americans want the social security system to head. We have already seen that the public broadly rejects one alternative—namely, lowering benefits in order to lower taxes.

By a margin of 51 to 36 percent, the public opposes a proposal to delay by 3 years the age at which retirement benefits would be paid, even when it is explicitly stated that the change would not take effect for 20 years and the alternative is increasing taxes; 34 percent oppose this idea strongly, while 15 percent strongly favor it. These results correspond to other findings in the survey which show that early retirement is more appealing than late retirement—although a substantial proportion of the population (40 percent) would be willing to delay retirement if they would receive higher retirement benefits as a result.

Voters are divided about a proposal to restructure social security so that medicare is paid out of general revenues; when the choice is between raising other Federal taxes to pay for medicare or increasing social security taxes, 43 percent favor finding a new funding source for the health insurance program and 35 percent oppose this idea.

Regarding the types of taxes which the public prefers for social security funding, respondents say by a margin of 49 to 26 percent that they would choose increases in payroll taxes over increases in the Federal income tax to pay for social security benefits. The margin is somewhat smaller when the alternative is a national sales tax: There, 45 percent say they would prefer higher payroll taxes and 31 percent say they would prefer starting a national sales tax.

We gave respondents a list of 13 different types of benefits that are now being paid by social security taxes. When asked which, if any, they think should not be paid for at all by Government, 42 percent of the public say that none should be abandoned, and another 10 percent do not select any because they are not sure. There is some support for eliminating benefits paid to students under certain circumstances—particularly benefits to a full-time student whose parent has retired (40 percent).

One drastic proposal which Americans broadly reject is the idea of ending the social security program altogether. Fully 76 percent oppose this idea, including 67 percent who strongly oppose it, while just 71 percent favor it.

Senator CHILES. Garth Taylor?

STATEMENT OF D. GARTH TAYLOR, CHICAGO, ILL., SENIOR STUDY DIRECTOR, NATIONAL OPINION RESEARCH CENTER

Mr. GARTH TAYLOR. Thank you.

I am honored by your invitation to address this committee. After looking at the questions facing this committee from the vantage point offered by several national surveys and a great deal of literature on the politics of social security and social welfare in America, it is my conclusion that many of the strategies that have been advanced for the continued financing of the social security systems are based on wishful thinking. The self-deception among some policy analysts is based on two incorrect beliefs. The first is that the public has been fully informed about and understands the current crisis in social security finance. The second erroneous belief is that the American public has, in principle, already agreed to pay the increased costs and accept the reduced level of benefits that will be necessary to bring the social security system into actuarial balance.

My own observation is that neither of these statements is actually true. The public has not been sufficiently informed of the principles in the processes that govern the workings of the social security system. Second, the adjustments that will be made in the social security system over the next several years will be negotiated in a climate that is highly political. We should not assume that the public is willing to accept the costs implied by the current terms of the social security contract for the intergenerational transfer of wealth. Rather, the terms of the intergenerational contract are now opening up to debate. The paper [1] I have submitted for this committee's records examines several of the pressures in American politics and in American public opinion which will guide the terms of this debate in the coming decade.

My remarks are fairly strong in their tone. I have adopted this tone not because it is now fashionable to attack programs involving public taxation. Rather, my purpose is to attack the complacency I see in the argument that the public understands and accepts the burden it will be asked to bear, and that the only role for the social security analyst is to solve the technical problems of cash and revenue flow in a social security system that is assumed to be expanding in size.

In fact, when we look at the full range of pressures and choices confronting the American people, the data show a very uneasy balance in public attitudes toward social security taxation. In this climate we should not assume that public financial and moral support is certain. We should not assume that public acceptance of the principles of social security financing is so ingrained that a questioning of these principles would seem to violate a public consensus. In fact, we are in a situation that is best described by a paraphrase of Samuel Butler that in providing for social security of future generations very little is certain but the expense.

Let me focus briefly on my statement that the public has not been fully informed of the social security crisis. The primary uncertainty in social security financing is, of course, that we cannot accurately predict future patterns of demographic change and economic growth. The social security system was begun at a time when the demographic balance was favorable to the formula that is used for transferring the fund between generations. Even in the fifties and sixties, periods of expanding social security commitments, the demographic balance was favorable and there was no reason to expect that it would not continue to be. During these periods of growth of social security commitments there was no way that Congress or the political parties could have known that the demographic patterns would change so much, resulting in the current forecast of bankruptcy and disaster for the social security system.

Senator CHILES. I am going to have to ask for a recess. We are halfway into a vote and I didn't realize it. I will be back in just a moment.

[Whereupon, at 10:35 a.m., the committee recessed until 11:10 a.m.]

Senator CHILES. Mr. Taylor, I ask you to excuse the interruption. We had two votes so I just stayed knowing that the second cloture vote was coming up. Perhaps we can get by for a few moments. Continue.

[1] See appendix, page 301.

Mr. GARTH TAYLOR. Where were we?

Senator CHILES. You were getting properly whipped up.

Mr. GARTH TAYLOR. All right.

Well, the point that I was making was that during the periods when the social security commitments were expanding there was no way that Congress or anyone else could have known that demographic patterns were going to change so much. Because of this, it seems to me unrealistic to argue that the American public in 1935 or at some later time agreed in principle to accept and pay the bill for the consequences of demographic changes in the social security system when there was no way of knowing what those changes would be. No savings bank or insurance company would accept that kind of contract. Because Congress did not know what demographic changes would befall the social security, it is specious to argue that they were fully informed, or that the American public was fully informed, of the changes that were going to occur in the system.

In the last several months I have noticed that some attempts have been made to explain to the public the current situation under the social security system mainly because the sacrifices that are to be demanded of the public are now imminent. The public opinion data suggest that there will be a great deal of public resentment against these sacrifices and that ultimately the resentment comes from a lack of public understanding of and acceptance of the basic principles of social security funding.

Simply put, most people see social security as a system of saving, and see retirement benefits as an earned entitlement. People understand that their social security account is not a bank account, but beyond this, there is very little appreciation of the moral obligations and fiscal uncertainties introduced by the pay-as-you-go system for transferring wealth between the generations. Once it becomes widely known that, on average, today's young wage earner can expect to be better off planning for retirement by putting his or her money in a 5-percent savings account than in a social security account there will be a growing sentiment that the people have been misled and that the social security system is not in the interest of the working public.

These reservations that I have outlined about public willingness to endure escalated socal security costs are often dismissed by comparing the rates of payroll taxes in this country with the higher rates in other Western industrial democracies. The point of view that motivates this comparison assumes: (*a*) Public acceptance is the only real limit on what is possible in social security finance; (*b*) the taxation rates in Western Europe present targets to which we, as a Nation, could aspire; and (*c*) the public has already agreed in principle to move toward these targets.

This point of view does not accurately represent the current state of American politics. Social security is, to be sure, the most stable and most publicly accepted component of the national welfare system. In public opinion theory, however, we have learned to differentiate a stable consensus from a permissive consensus. The social security system is not a stable issue in American politics. There are latent conflicts in public opinion and latent debates in national party politics, that if activated, will question the foundation and operation of the social security system.

As long as conflicts are not raised in public debate, public opinion will be permissive toward the operation of the social security system. The paper I have submitted for the record [1] of this committee shows, however, that the latent conflicts in social security finance are aggravated during periods of economic insecurity and disaffection with the power and capability of National Government.

Since the 1940's we have measured trends in public opinion in these areas. The public opinion trends which pose the strongest threat to the social security system as it currently operates are: (*a*) The now record levels of individual and household anxiety about security of the economic future; (*b*) the now record level of resentment with the level of national taxation; (*c*) the now record level of support for the idea that Government is not capable of solving economic and social problems; and finally (*d*) the substantially increased level of economic sophistication of the American workers in their roles as consumers and family financial planners.

The first three trends are nearly self-apparent in their implications for social security policy: (*a*) Economic insecurity is now to the point where the majority of people believe they cannot afford the tax payments and furthermore do not believe that their investment in the social security system will ultimately provide worthwhile or adequate benefits; (*b*) tax resentment will lead to a cut in the scope of federally administered programs, although it is unlikely social security will be directly attacked; and (*c*) the loss of confidence in the Government creates an environment where the principle of Government involvement can be debated. In this sense, the opponents of Government are the ultimate beneficiaries of the Watergate scandal.

The increased economic sophistication of the American worker suggests that the forced saving rationale for the social security program may no longer be appropriate. I believe that it is only a short matter of time before it will be popular to charge the social security system as an economically unwise program to participate in, and that it discriminates against young workers.

Unfortunately the current crisis in social security must be solved during the historical period when each of these trends in public opinion is at its peak. If the goal is to do the least damage to the current system, this is the worst possible time to be raising the question of social security refinance. Public feelings of economic insecurity and tax resentment are closely tied to national cycles of inflation and economic recession and will recede eventually.

The loss of confidence in Government and increased consumer sophistication would not be enough to question the foundation of the social security system if these were the only negative trends affecting attitudes toward social security finance. However, since the issue has been raised because of demographic and economic necessity, loss of confidence and consumer sophistication will establish the terms of the national debate.

The short-term solution to the social security crisis that is most feasible is to use general taxation revenues or in some other way compensate the worker for increased social security taxes by cutting other taxes and expenditures. This is to say that it is unlikely the social security program will be attacked directly. However, there is a zero sum situa-

[1] See appendix, page 301.

tion and the American public will not willingly pay the cost of stabilizing the system. This means that other items in the Federal budget will be attacked. Furthermore, it is quite clear that the public understands and supports this tradeoff.

Even though it is unlikely that the social security system will be attacked directly. I do believe that the problem of the younger and more sophisticated worker is terribly salient. These are the people who presently have the greatest incentive to attack the social security system directly. If these people continue to be taxed so heavily, and in their eyes so unfairly, then it is virtually certain that they will support drastic revisions of the social security program.

The only way to serve the needs of this group, the needs of the older population, and to avoid the dependence of the social security system on demographic patterns and economic cyles, is to rethink the formulas for taxing and funding of the social security system. At the present time Americans accept the principle of social security but they do not feel wedded to the particular administrative features of the present system. The most positive step for the Congress to take would be to reexamine the principles by which the current system is funded, to refashion these principles to take account of the changed demographic and economic circumstances and, hopefully, to design a new formula for taxation and funding that is not so vulnerable to social and economic patterns in the economic population.

Thank you.

Senator CHILES. Thank you.

We hear in the testimony of Garth Taylor some gloom in looking at not what the surveys say today, but what he interprets they are going to say down the road. I wonder if Mr. Garin and Humphrey Taylor would like to comment on that. I might just throw into that, the fact that we know that your surveys were taken some time ago. We know that in less than 1 month the payroll tax is due to go up again, this time from 6.13 to 6.65 percent, and that the salary base is going to go up as well.

I would like to know whether either of your organizations have plans to test the public opinion again on this, and I would like to know if you have any comments on Garth Taylor's statements on the fact that current acceptance for the system does not mean that all is well. He suggests the system will come under attack as we go up in these payments and as we go down the road.

Mr. GARIN. I would like to make a few comments if I could.

Our survey was taken 1 year ago in November 1979, but I am sure that both candidates in the 1980 Presidential campaign were polling attitudes toward social security, and I am sure that the President-elect and the President understand what the people are thinking about social security. It is clear how that issue evolved in the campaign. The President's strategy was to make his opponent seem to be somebody who wants to change the system, who wants to get rid of the social security system. Governor Reagan, who on most issues, feels comfortable coming across as a fiscal conservative, did not feel comfortable doing that on social security. This gives you some insight into how the candidates were reading the public mood.

Governor Reagan in all sorts of public appearances took great pains to let the voters know that his fiscal conservatism was not so encompassing that he would do anything to undermine the benefits and advantages provided by social security.

Some other reactions in Garth's statement. I am not sure that I agree with him on how much the public knows about social security. He suggested that Americans don't know, for example, that social security is a "pay-as-you-go system," that the money is not set aside for them to collect some day in the future. In our survey we looked at that question two different ways. One question was very precise.

We asked respondents to consider two statements and say which is a better way of describing how social security works. One statement, selected only by 20 percent of the people, says social security taxes paid by people today are set aside for their retirement. The other statement, which is obviously the more accurate one, and the one cited by 71 percent as being accurate, says social security taxes paid today are used for retirement benefits older people receive today. So there is fairly broad understanding that the system is a pay-as-you-go system, that it is not an insurance program where your money is set aside in a savings account for you. Throughout our survey we basically find that relatively high degree of information.

A few other points. Garth was wondering whether the public understood that there is a generational transfer going on and he speculated that they would begin to object to social security if they found this out. The one thing we find in all of our polling now is that Americans are still basically very compassionate people, particularly when the well-being and welfare of older Americans is involved. A lot of our work is done for candidates for public office and we tested these sorts of issue all along. It is clear to us that when it is a question of spending money to make sure that older Americans can live in security and comfortable circumstances that this is a sacrifice that Americans have always been willing to make—younger Americans are willing to make and older Americans in fact.

The other point I would make is that with regard to what Garth was talking about—that proposition 13 reflected a broad rejection of Government and taxes. I am not sure really how broad it was, but in any case the point I want to emphasize is, that social security is qualitatively different in American perception from any other Government program. The problem that underlies proposition 13 was that the taxpayers began to lose sight of the connection between the taxes they were paying and the benefits they were getting in return.

They, in fact, became quite confident that there was not really any connection that they were not getting anything back for their money. That is not really the case with social security. It is the one program that stands out among everything else. People do see a connection in cost and benefits and that may make it different from the kinds of elements that Garth was describing.

Senator CHILES. Humphrey Taylor?

Mr. HUMPHREY TAYLOR. I would like to make a direct response to what was said. First, I have to agree with the remarks that Geoffrey Garin made about the degree of understanding of the social security system. Clearly many people don't understand many of the things that go on in relation to Government and taxes, and complicated things that go on here in Washington. But, compared to our understanding of many other areas of Government activity, it seems to me that the level of understanding about social security is quite high.

We have similar but differently worded questions, for example, on the use of social security taxes, and we found, in fact, only 8 percent to believe that the money was set aside for future use, and the overwhelming majority understand it is used to pay current social security benefits. Having said that, people also don't understand the implications of the changing demographics, and so on, of the system.

The second point I think I would make is, that it is worth looking for some insights into the future at the European experience where for many years they have had a larger proportion of their populations over 65, than is true, or indeed will be true, up until the end of the century in this country, and they have been through many of the same debates about maintaining benefits or cutting them, cutting taxes or not increasing taxes, and almost always the argument has been resolved in favor of maintaining the benefits.

I want to express that the value judgment is very simple and very political. The larger the portion of the electorate over 65, the greater the pressure on legislators to maintain those benefits. It is, of course, the one issue almost beyond us which gets straight to the voting intentions of that particular segment of the population and those who are approaching that.

The third point I think I would make is that Mr. Garin referred to his data about opposition to raising the age of qualification. I was interested in that data, we didn't have anything like that. I would, I think, just draw attention to the fact that this opposition to raising the age of qualification to, say 68, is less intense in opposition to not linking benefits to inflation. In other words, if it comes to a choice, and none of us specifically asked that question, my view still would be that breaking the linkage with inflation would trigger off a more hostile reaction than raising the age from, say, 65 to 68.

The fourth point none of us really discussed in much detail, the contribution that private pensions can make in this field. The study that we conducted for Johnson & Higgins did, of course, look at that, and there are courses which could mandate behavior by employers, or incentives which encourage behavior by employees to increase greater investment in pension plans. None of these, of course, make the contribution in the short term but in the long term they can make a significant impact. They don't, unfortunately, help with the short-term problem that you referred to.

Finally, the answer to your question, yes, we do plan to test attitudes to social security payments and taxes in the light of the new payments which will come into effect next year.

Senator CHILES. Thank you.

Garth Taylor, in your remarks I thought I gathered that you were saying there is this tremendous feeling of uncertainty out there with the younger workers, based on the fact that we do not retain the assets for them. I think you also were talking about how they are going to pay in so much during their lifetime and then receive little or no benefits, that now is not the best time that we should be dealing with the long-term problem.

I wonder about that, because it seems to me that if 30 percent of the younger workers under the Peter Hart survey feel that there will be benefits, I have not found any of them in my trips to Florida, because all of them I find are among your 60 percent. To me that number is legion who say: You know, what is going to happen at the time we are ready to retire, there is not going to be anything there. I think that most of them realize that the system is in trouble; in fact, they sort of realized it almost before our experts realized it.

They sensed that it was in trouble, and it seems to me, if they don't feel that we are doing something about that, then that feeling is only going to grow and grow. And even if what needs to be done is some hard medicine, I almost feel that if it is not hard medicine, they are not going to feel that we have done anything. In other words, I think they know there is no free lunch, and that part of the problem now is the fact that we have raised these benefits, and we felt it was socially desirable to do so, but we raised benefits and gave those benefits to people who had not paid in commensurate to the system. So someone has to carry the load.

It would seem to me that only if we face up to that problem and if we can assure them that the steps that we are taking, regardless of how bad they might perceive them to be, if they feel we are going to cure the problem, we give them a chance where they can regain confidence in the system, and then maybe we can overcome what could be a growing trend toward some kind of revolt on their part.

Mr. GARTH TAYLOR. I was not saying we should not deal with the problem now. It is essential that we begin the task as soon as possible. My point was that the present political situation will make it terribly difficult to contain this discussion to narrow administrative issues of refinance. In terms of economic fears, resentment against taxes, we are at the worst point in the cycle of public opinion to begin a discussion of social security tax increases. I am not really in favor of all of these trends but we must face it that, at present, those are the facts.

Senator CHILES. That is right. Those are the facts, it is the worst of times. It would be much better if you could deal with the situation if you were not in the economic climate that we are in, with the inflation and also the general feeling of people toward Government spending. The purpose of these hearings, as we perceive them from the Aging Committee, is to lay it all out and try to get more light than heat on the subject.

We now have three national commissions working on this. We are developing a core of information, and it seems to me if you can get enough facts out there, if you can see really what the problem is—the short-term cash flow problem and the long-term demographic problem—if you can see the possibilities of solutions to those problems, what are the alternatives, then you can really begin to look at what the pluses and minuses are. I think the next Congress has to come to grips with this.

I think the next Congress has got to determine how we are going to deal with the short-term problem, and I really feel we must take some steps on the long term because unless we can convince the people that that program is going to be sound in the year 2000, in the year 2020, and the year 2030, then the work force that is out there now, will feel that they are being required to pay an abnormal load. Regardless of how it started, social security has become the cornerstone of retirement for 60 to 75 percent of our people, so we have to take steps to safeguard our system.

But unless we can convince the younger workers that it will be sound when they get there, then I think we could really have some problems

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and that is why, as I say, I think the next Congress must not avoid the issue. Hopefully, we will get all of these particular alternatives on the table.

We heard from the panel yesterday representing the seniors. It is interesting to note that the retired persons, generally speaking, really are reluctant to discuss changes in the index because they perceive a change in the CPI as a way of lowering it. They see it as just another way of saying you are going to lower the benefits. However, I think if we could review the question in a proper scholarly forum where you really looked again at whether housing should have the weight that it now has in the CPI, we could come to a fair conclusion.

I think you could have some public acceptance of that if you could do it on that basis, but if you come up with an 85-percent cap on the CPI figure, or if you come up with some quick fix, then I see that as a disaster, and I just would like your comments as to whether this is something that Congress must address and address right now.

Mr. GARTH TAYLOR. I think it is terribly important to get social security financing off the roller coaster. The roller coaster is driven by economic changes in the society and by demographic changes in the society. We now know that it is unstable and illogical to have a system where the happiness and security of future retirement generations depends on the birth rate—on private, personal decisions of young people who are forming families. The way society is now, this formula doesn't make sense. It made sense when the system began in the thirties and forties because, at that time, the age structure in the population was favorable to doing it that way.

But there have been many changes since then. One lesson we have learned is that demographic patterns are unpredictable. This is not a failure of demographers or policy analysts. People's values change about how many children they want. People's values change on how long they wanted to work. For a while there was a trend for people to retire earlier than 65 and now it is going the other way.

Senator CHILES. There is some indication it is going both ways.

Mr. GARTH TAYLOR. Both ways at once depending upon how desirable the alternatives are. The fact remains that it is important to get off that roller coaster. In terms of some of the specific proposals for doing that, I think we should recognize, No. 1, that the issue of advancing the age of retirement has not really been fully laid out. I think once people realize that by changing the retirement or the entitlement age from 65 to 68, what you are counting on is a way of balancing the system financially, because people are going to die and not ever receive the benefits.

Senator CHILES. Not necessarily, no. There is another side to that—if I could perform the role of the devil's advocate, because I am not sure in my mind that I want to change that age upwards—it seems that if we are now saying that at age 65 you have a life expectancy of 14 years, and if at the year 2010 or 2020, you would have 14 years plus 3 to draw your benefits, those extra 3 years are part of the reason that the system gets in trouble because you are taking out that much more out of the trust fund. So, maybe there is more reason than just saying we are going to save some money. We are trying to find a way to give you the same 14 years that we are giving the person that retires today. So there is another argument.

Mr. GARTH TAYLOR. That is something that is going to change also. That is going to be another roller coaster—how long people live.

Senator CHILES. I agree.

Mr. GARTH TAYLOR. It is probably going to keep going up in the foreseeable future.

Senator CHILES. I hope that, too.

Mr. GARTH TAYLOR. Another solution is to rely on private alternatives to social security or voluntary programs that people could take part in to supplement or somehow underpin the social security system. The main issue that I see here is that this is an issue where there is going to be tremendous disagreement about in the population. For certain groups, like the young workers, it is tremendously in their interest to do that.

Senator CHILES. Should we as governmental policy be encouraging that? I think that is one of the things that we are looking at.

Mr. HUMPHREY TAYLOR. Could I jump in on that?

Senator CHILES. Yes.

Mr. HUMPHREY TAYLOR. I think we should. I think your specific question about whether or not the Congress should address this issue, at this time, has to be answered positively. Failure to do so would be irresponsible and in the long run I think would lower the esteem in which the American people hold the Congress.

If I had to guess 10 years ahead, I would expect some time there will be mandatory employer pensions but I don't see that happening immediately in the program.

I think that one of the problems is that we keep using the word "system." System implies that in some way it can be guaranteed and that it can be brought into long-term balance. In fact, of course, it is not a system, it can't be guaranteed. It will always be dependent on the political realities at the time.

Senator CHILES. Well, you want to be very careful. We don't want to leave here today leaving the impression that benefits are not guaranteed. I think that is the one thing that gives more tremor to the people than anything else. You have the full faith and credit of the U.S. Government backing this up, and I think that is the best guarantee that there is. Certainly you know we can skew the benefits up or down. As we have skewed them up, we may have to skew them down, but I think it is as good a guarantee as there is on the lot right now.

Mr. HUMPHREY TAYLOR. I am sorry if I sound defensive. That is what I really mean.

Senator CHILES. I don't want to answer all that mail.

Mr. HUMPHREY TAYLOR. I think it is difficult for today's Congress to say how Congress may vote in 10 or 20 years' time.

Senator CHILES. Fine.

Mr. GARIN. I would agree with Humphrey's point. Those low-confidence rates for social security are not based on actuarial judgments, but instead are an expression of low confidence in Government. To put on my political consultant's hat for a moment, I think it is really essential to try and build that confidence back up. I am not sure that you need to have an ultimate solution for the problems of social security in the next 2 years, but I think it is important for Americans to know that the Congress and the new administration understand their concerns, they understand that Americans basically believe that there has to be a social welfare program that insures older Americans a decent income for retirement, and it has to be clear to the public that that work is going on in some kind of competent way.

Senator CHILES. Well, we thank you all very much for your testimony and we hope that you will be continuing your sampling. I think it will be interesting to see what does take place. I agree very much with what you say. I think it is tremendously important that the public be informed on the issues, and on what the possible solutions are, as we go forward to do something. Public understanding is important if we are going to continue to have a viable and a sound system.

Thank you.

Mr. GARTH TAYLOR. Thank you.

Senator CHILES. Now we will hear from Commissioner Driver.

Mr. Driver, we are delighted to have you with us this morning and know that you are now going to be able to give us all the answers to these small problems that we have been talking about.

STATEMENT OF WILLIAM J. DRIVER, WASHINGTON, D.C., COMMISSIONER, SOCIAL SECURITY ADMINISTRATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY LAWRENCE THOMPSON, ASSOCIATE COMMISSIONER FOR POLICY

Mr. DRIVER. Thank you, Mr. Chairman. I have with me the Associate Commissioner for Policy for the Social Security Administration, Lawrence Thompson, and between us we will try to answer any questions you might have.

In the interest of time, I will refrain from reading my statement and ask that it be entered into the record.

Senator CHILES. Thank you, sir. Your prepared statement will be entered into the record now.

[The prepared statement of Mr. Driver follows:]

PREPARED STATEMENT OF WILLIAM J. DRIVER

Mr. Chairman and members of the committee, I welcome the opportunity to appear before you today to discuss the social security system, and some options for change that are under consideration in various forums and that may well receive some attention in the next Congress.

In the past year, during which I have served as Commissioner of Social Security, I have had a unique opportunity to see how the social security system works and to make certain observations which I hope will contribute to a wide-ranging debate on the questions of how best to continue to assure an adequate income in retirement for the people of this Nation. I should point out that the major issues facing the social security system are basic social and economic issues of the greatest importance to our country. These issues involve choices that are so broad that they concern not only our retirement income system, but also basic national social and economic policies which have profound implications for each of us.

SOCIAL SECURITY TODAY

It seems appropriate to begin my discussion of future options for change with an overview of where the social security program is today. I think we have a record in which we can take pride. Social security has proved to be one of the most enduring, effective, and efficient programs in American history.

Social security is constructed around the principle that active workers and their employers should contribute toward the cost of retirement, disability, and survivor benefits and that workers should subsequently become entitled to these benefits as an earned right, not on the basis of individual financial need or personal circumstances. This is a philosophy that emphasizes the work ethic and individual responsibility. It is a philosophy that has broad support among liberals and conservatives alike, and among individuals in all socioeconomic groups.

It has now been 45 years since the original Social Security Act was signed, and 40 years since we began paying monthly benefits. In these years, the program has evolved and matured into a system with a scope and reach that is remarkably similar to that envisioned by the framers of the legislation in the 1930's. This year over 114 million people will work in employment covered by social security, paying social security taxes on their earnings, and accruing rights to future social security benefits. At the same time, monthly checks will go out to some 35 million beneficiaries, the vast majority of whom rely on social security to provide the mainstay of their economic support. Ninety-five percent of the people reaching age 65 this year will be eligible for social security cash and medical benefits; 95 percent of all the children in the country would be eligible for survivor benefits if an employed parent were to die; and 80 percent of working-age adults are protected in the event of disability.

As a measure of success in achieving its economic security goals, it is clear that social security has made a substantial contribution to raising people's incomes above poverty. We estimate that if there were no social security there would be three aged poor persons for every one we now classify as poor. Social security thus cuts the incidence of poverty among the aged by two-thirds. Although social security goes in large measure to the aged, payments to the aged and nonaged together in 1978 probably kept a total of 11.3 million persons of all ages out of poverty. Nearly 7 million of these would be poor persons 65 or older.

In assessing the extent to which social security benefits are fair and meet the income needs of our Nation's elderly, it is important to reiterate that social security combines two goals—adequacy and equity. Neither of these two concepts can be defined with precision, but it is clear that each has a different emphasis. If all the emphasis in social security were on the goal of equity, we would have a strictly proportional benefit formula which would tend either to produce benefits that are inadequate for low-wage earners or to produce benefits which are much larger than present-law benefits for high-wage workers. Putting more emphasis on the adequacy goal would weaken the link between benefits and earnings.

This deliberate design—a balancing of adequacy and equity—provides higher benefits and a higher standard of living to lower earners than they would have if benefits were strictly proportional to earnings. Social security explicitly recognizes that lower paid workers are less likely to be able to supplement their social security benefits substantially, while higher paid workers are more able to save for retirement and the more likely to have worked in employment that provides them with private pension income.

Our studies have verified that this is in fact what happens—workers at lower earnings levels have consistently lower savings and less in the way of pension income than do higher paid workers. Higher wage workers do supplement their social security benefits with income from private sources to a much greater extent than do low-wage workers. The social security benefit formula leaves room for income from such private supplements. Then, in providing supplementary protection, the design, funding, and operation of private pension plans generally take account of the social security benefits to which workers will be entitled.

I would like to turn now to some of the questions that you specifically asked me to address—the short- and long-range financing picture and future directions in social security.

SHORT-RANGE FINANCING

As you know, the Congress recently passed legislation (Public Law 96-403) that shifts income from the disability insurance (DI) program to the old-age and survivors insurance (OASI) program for calendar years 1980 and 1981, without changing the overall tax for social security cash benefits. The effect of this relatively technical reallocation of income to these two trust funds is that the OASI system is not expected to encounter cash-flow problems before the middle of 1982, rather than in 1981, as projected under prior law.

Current estimates, based on Office of Management and Budget (OMB) midsession review assumptions, show that further congressional action will be needed in 1981 to strengthen the short-range financing of OASDI. And, as you know, there have been bipartisan expressions of intent, in both Houses of Congress, to deal further with social security financing next year. I trust this issue will be given the priority it deserves. The well-being and peace of mind of literally millions of Americans will depend on the prompt and responsible action that is taken in this area. And I have every confidence that the new administration and the new Congress will continue in the tradition of the past 45 years of meeting our social security commitments.

The Carter administration proposed earlier this year that the law be changed to authorize the borrowing of funds among the three payroll tax supported trust funds—OASI, DI, and medicare hospital insurance (HI). Such a plan would have eased the cash-flow problems faced by the OASI fund without impairing the ability of the other two funds to meet benefit obligations during the 1980's. Although current (midsession review) estimates are somewhat less favorable than those made at the beginning of the year, such an interfund borrowing authority could still be of substantial help. In particular, with interfund borrowing authority, cash-flow difficulties in 1982 and beyond could be avoided.

I still feel that interfund borrowing would be desirable. However, a worsening of current economic projections could cause serious problems over the next 4 or 5 years unless interfund borrowing and possibly other measures are enacted.

Additional ways of avoiding cash-flow problems by providing for temporarily increasing trust fund revenues (or decreasing outlays) have been advanced. The 1979 Advisory Council on Social Security, for example, dealt with a range of financing options. One of the Advisory Council's recommendations would provide authority for trust fund borrowing from the general fund in certain situations. General revenue loans would provide a safety net that insures that beneficiaries will always be paid regardless of temporary economic downturns. Also, the Council unanimously recommended merging the OASI and DI trust funds which would in part achieve the objectives of interfund borrowing.

The National Commission on Social Security endorsed a general fund borrowing authority in its interim report. Both the Advisory Council and the National Commission proposals featured an automatic payback provision. The Advisory Council proposed that payroll taxes be increased automatically to insure repayment when loans are not repaid within 2 years. While the National Commission did not specify how repayment ought to be accomplished, it did recommend that all borrowed funds be repaid by the end of 1988. The requirement that loans be repaid guarantees that the use of general revenues would be a temporary measure and social security benefits would in essence still be financed entirely by the payroll tax. Any such authority for general fund borrowing provides a guarantee that funds will always be available to pay benefits.

Three more basic methods of increasing trust fund revenues or reducing trust fund expenditures are: Increases in payroll taxes, the use of direct and substantial general revenue contributions, and actions which reduce benefit costs. These are generic remedies which to varying degrees can be applied to both short and long-term financing problems. They need not be mutually exclusive. Before considering some of the major options in these areas, I would first like to briefly discuss the nature of the longer term issues in social security.

LONGER RANGE ISSUES

As to the longer range situation, I would like to discuss not only the financing picture but also the role of social security in the future. Obviously, the two are related.

Social security is part of the Nation's overall effort to provide a humane means to deal with social problems. The size of the program today attests to America's commitment to these goals. Some believe the program is mature and should not be further expanded. Others believe that the long-run agenda has not yet been completed, and that benefits should be expanded further to address problems of poverty. For example, the economic plight of aged widows in this country is in particular need of attention; 22 percent of aged widows are living in poverty, as compared to only 8 percent of aged married couples.

The point is that even though the social security program may be considered to be mature, adjustments will continue to be necessary to improve its equity and to respond to changing social and economic circumstances. For example, the Advisory Council called for consideration of changes in the way social security treats women and recommended a new benefit formula to increase benefits for long-term low-wage workers and for high-wage workers.

The desire to make the program more equitable will lead to a fundamental debate on the allocation of social security benefits and costs and this will be directly related to the debate on social security financing. Liberalization of the benefit structure for some can only be accomplished by either reducing other benefit categories or increasing revenue.

This same choice is posed by demographic projections showing that in the next century the Nation will have a very large retired population being supported by a smaller proportion of workers. Current projections indicate that by 2030 there will be roughly two workers per social security beneficiary, as compared to three workers per beneficiary today.

This change in the age structure of the population will have little effect on social security in the near term. Despite cash-flow problems in particular years, the Trustees project that the OASDI system will have a surplus of income over outgo averaging 1.19 percent of taxable payroll over the next 25 years. However, over the long term, changes in age structure have large effects. We project a deficit of 1.17 percent of payroll for the 2005–2029 period and a deficit of 4.58 percent for the years from 2030 to 2054. Averaging over the next 75 years, we project a deficit of 1.52 percent of payroll.

There are two points to bear in mind about these projections. First, they are projections, not certainties; they represent the best guess of capable actuaries and economists based on all the information available. Imagine, if you will, the prospects of people in 1905, 75 years ago, predicting what social and economic conditions would be like in 1980. This gives you some idea of the uncertainties we face when we make social security projections for 75 years into the future. The second point is that if circumstances in the next century do turn out to be anything like those we are currently projecting, the issue will not be just a social security issue. We will be faced with a fundamental shift in the makeup of our society, with broad social, economic, and political implications.

Despite these many uncertainties, there seems little doubt that a major demographic shift is underway. It is therefore important for us to consider what might be done to provide adequate retirement income for a relatively larger aged population in the 21st century. One thing is clear—if we are to preserve present standards of retirement income adequacy, the costs to society in the 21st century will be the same whatever mechanisms—public or private—are used.

Other societies have already experienced the demographic shift we are projecting for America's future. European countries, when faced with similar social security financing problems, have generally opted for paying higher taxes rather than reducing benefits. West Germans, for example, already facing a worker/retiree ratio of one to two, now pay a combined employer-employee tax, similar to our payroll tax, of 18 percent (compared with 10.16 percent in the United States). The Swedes, Dutch, and Italians pay over 20 percent. Of course, we need not take the particular route chosen by the European countries. A survey sponsored by the National Commission on Social Security showed that, given the choice of higher social security taxes or lower future retirement benefits, 63 percent of the American people chose higher taxes.

An alternative to raising the payroll tax is to infuse general revenues into the social security system. This would not diminish the overall cost to our society, but would to some degree redistribute it among the taxpaying population.

GENERAL REVENUE FINANCING

The social security program has traditionally been financed by the payroll tax. Although somewhat controversial, the payroll tax does have a number of advantages. Since the amount of a worker's benefit is based on the amount of his or her prior earnings, there is a logic to the idea that the program should be financed by a tax on the same earnings.

Many believe that the payroll tax produces in each contributor a sense of paying toward the benefits he and his family will get and that it underscores the payment of benefits as an earned right and without a test of need. It also widely held that the payroll tax provides a form of fiscal discipline on the program.

These values would be weakened if general revenues were made a major source of financing. Any proposal to use general revenues must be evaluated based on the extent to which it would undercut the value of payroll tax financing. Ideas on how to use general revenues in social security tend to vary based on different perceptions of the advantages of the payroll tax.

The idea of using nonpayroll tax revenues to help finance social security is not new. It has been around since the beginning of social security. Many European countries, including some whose social security systems may be more comprehensive than ours, supplement payroll tax financing with contributions from general fund revenues.

Some have suggested the use of general revenue financing for a portion of the overall social security program. Some favor using general revenues in the cash benefits programs only for particular purposes. The use of general revenues for medicare hospital insurance appears to have more advocates than other approaches. Proponents of general revenues for medicare hospital insurance point out that the payroll tax is more appropriate for cash benefits programs because benefits are based on past earnings and to the taxes paid on those earnings, a relationship that does not apply to hospital insurance benefits. The 1975 Advisory Council on Social Security cited this as a reason for the use of general revenue financing for hospital insurance. The 1979 Advisory Council recommended that a portion of the personal and corporate income tax be earmarked for medicare—something along the lines of an earmarked payroll tax.

ALTERNATIVES TO INCREASING INCOME TO THE TRUST FUNDS

Consideration might also be given to reducing the cost of the program. There is a wide range of ideas about selective or general benefit reductions now being discussed in various forums. Some proposals would alter fundamental aspects of social security; others would alter or eliminate less basic elements of the program.

RAISE THE RETIREMENT AGE

One proposition being widely discussed is to raise the retirement age by a few years, so that the ratio of workers to retirees would be higher than now expected. Advocates of postponing payment of retirement benefits generally maintain that this is a fair way of restraining future program costs because of increases in the life expectancy of the elderly. They also point out that section 1104 of the Social Security Act specifically reserves to the Congress the right to alter or amend any aspect of the social security program. A normal retirement age of 68 in the year 2000 would provide future retirees with the same number of years of full retirement benefits as was envisaged for the first social security beneficiaries retiring at age 65 in 1940.

Opponents argue, however, that raising the normal retirement age would break faith with persons now working under social security, since even the youngest workers have made contributions to the system in the expectation of retirement by age 65. It is also suggested that workers in arduous occupations should not be asked to extend their worklives.

Proposals advanced so far to raise the retirement age would not by themselves solve the entire long range social security financing problem. Furthermore, if the age were going to be raised, people who would be affected should have ample leadtime—some advocate as many as 20 years or more—to modify their life and work expectations in accordance with the new retirement policies.

Current trends continue to run in the direction of earlier, rather than later, retirement. The number of people claiming early retirement benefits under social security continues to climb, and after a very slight, and possibly insignificant, drop in 1978 and 1979, the fraction of workers who claim their benefits before age 65 appears to be increasing again in 1980. Moreover, Labor Department statistics through 1978 show that labor force participation has declined sharply among men 60 and 61 years old. The cause of this latter trend is not yet clear.

However, it is clear that the trend toward early retirement—which is costly (at least in terms of revenue loss and current benefit payments) to the social security system—is deeply entrenched in our society. It is an attitude that has in the past been encouraged by labor, business, and government for various and sometimes similar reasons. On the other hand, many people are concerned that older people should have the opportunity to work if they want to, which led to the recent increase of the mandatory retirement age of 70.

It may be true that 65 was an essentially arbitrary choice for retirement age when social security was established, but the fact it has been endorsed for so long has established that number as a given in the public mind. Before any decision about changing it can be wisely made, a great deal more study and discussion of the issue need to take place. This will require cooperation and open discussion among government, representatives of workers, employers, the aged, and others.

LOWER REPLACEMENT RATES

Another possible way to hold down the long-range costs of the social security program is to gradually lower future replacement rates—the ratio of benefits to previous wages. Under present law, initial social security benefits for each year's new retirees rise at the same rate as average wage levels. The replacement rate of the average wage worker retiring in the future will be essentially the same as that of the average earner retiring today. This means that future benefits will be kept up to date with rising wages and standards of living and future retirees will retire at higher standards of living.

The present system of linking initial benefits with wage growth during working years is in keeping with the wage-related nature of the social security system. It was enacted as a central provision of the Social Security Amendments of 1977. You will recall that projections made in the mid-1970's showed that without legislation the interaction of economic factors with the automatic cost-of-living adjustments then in the law would lead to increases in initial benefit levels that would have outpaced wage increases. The necessary adjustments were made in the 1977 amendments so that the present social security initial benefit level is stable in relation to wages—that is on average, initial benefits will bear a constant relation to wage levels. Benefits after retirement still increase with prices.

Before 1977, and indeed today, the argument has been advanced that this assurance that initial benefits will keep pace with wages is more than we need necessarily guaranteed over the long range. It is suggested that the social security benefit formula could be restructured to provide that initial benefits rise at something less than the rate of increase in average wages—say, at a rate closer to the rate of increase in average prices. Since prices generally have risen less rapidly than wages over extended time periods, social security benefits, and therefore costs, would have been reduced.

While the purchasing power of initial benefits would be maintained over time, the value of initial benefits would decline in relation to real wage growth and, thus, in relation to the improvements in a worker's living standards that wage growth makes possible. Over time, initial social security benefits would replace a smaller and smaller percentage of a worker's preretirement earnings at that time, and would be less effective in helping to maintain his or her preretirement standard of living.

In any event, it is clear that the method of computing initial benefits for workers who retire or become disabled in the future and the survivors of deceased workers can have a significant effect on long-range costs. Methods which produce exact nature—eliminate all or part of the long-run deficit. Any such proposals, however, would be a substantial departure from present law and retirement policy, and would require much study and debate.

OTHER AREAS FOR CONSIDERATION

Before concluding, I'd like to mention other areas of interest that affect social security financing.

Modifications in the Earnings Test

One of the most controversial aspects of the social security program is the provision that most directly targets social security to those who are retired—that is, those who do not have substantial earnings from current employment. I am referring, of course, to the social security earnings test. This test is often criticized as discouraging work among older people and as penalizing those who wish to supplement their social security benefits with earnings.

It is important, I think, that public retirement programs for the aged not interfere unduly with normal work incentives. On the other hand, we must be concerned about the adequacy of social security benefits for those who are not working. The social security earnings test seeks to balance these concerns. Social security has always been viewed as an earnings replacement program, so benefits have been designed to replace in part earnings that part actually lost. In this context, it has always been considered appropriate to have some objective measure of retirement. Many believe that paying social security benefits regardless of a person's earnings is not consistent with targeting social security funds where the need is the greatest. Moreover, there is no clear agreement on precisely how the earnings test may affect the work patterns of social security beneficiaries.

Thus, the very existence of the earnings test reflects a desire to restrict payments to those who have actually retired—to target benefits so that they are as adequate as possible for those who need them the most. A similar objective—payment only to those who are retired—is served in private pension plans in that an individual generally must stop working in employment covered by the plan before receiving benefits under the plan. In social security this principle is applied somewhat more broadly—although coverage is not quite universal, all earnings (covered and noncovered) are counted for earnings test purposes.

Universal Coverage

There is another subject that is sometimes considered in conjunction with improving social security financing—the subject of universal coverage. In my opinion, the substantive arguments which would support extension of social security coverage are not ones of financing, but of fairness and equity in eliminating gaps in coverage and reducing windfall benefits. Nevertheless, in the shorter term universal coverage could substantially improve the financial status of the trust funds, and over the long run there are some favorable effects on social security as a result of universal coverage.

Proposals to extend social security protection to Federal civilian employees have been considered many times over the years by the Congress and by the Department of Health and Human Services, but these proposals have proved very controversial and never were enacted. The principal obstacle then and now has been the problem of reaching agreement on a fair and workable arrangement for those workers not now working under social security who are covered instead by their own staff retirement plans. In this regard, I believe the recent report of the Universal Coverage Study Group has been of value in delineating a range of coverage options which might be considered, including their potential effects on workers and employers.

TREATMENT OF WOMEN

Finally, there is the question of how well the social security system has responded to the changing roles of men and women since the system began. We believe it is imperative that women, who represent half the population and 42 percent of the work force, have a social security program that accords them both the dignity and appropriate treatment that is due them as equal participants in society. However, we must also frame changes to the system in a way that will not mean that women—or men—lose valuable protection. Ultimately, it becomes a matter of balancing the needs of different groups and finding ways to accommodate, with fairness, those needs that are most pressing.

CONCLUSION

The problems of balancing the needs of our aged population now and in the future with the resources available for and other purposes will require serious and extended debate with the broadest possible participation. They may well be the highest priority social and economic issues facing the country in this decade. I am confident that when these issues are resolved, the social security system, which has been so successful and so widely accepted by the public, will continue to be the mainstay of this Nation's policies for economic security. Mr. Chairman, these hearings are a welcome contribution to the debate, and I wish you and the committee well in your ongoing promotion of these discussions.

Mr. DRIVER. I will refer to only a few things that are in my statement and depend on you, Mr. Chairman, and the other members of the committee to look at it or any parts of it, if you are interested in more detail. There has been a great deal said here about social security this morning, some of which I would agree with. Certainly the size of the program is well recognized and does not need any background information from me before this committee.

I familiarized myself with the previous testimony and I know you have a mountain of data, some of which we have contributed, at your request, in terms of actuarial projections.

Senator CHILES. We appreciate your comments on any of that data that we have accumulated, and on any of the witnesses that have testified before us, including those this morning.

Mr. DRIVER. Thank you, sir.

I would like by way of background to note that traditionally the Social Security Administration, through the Trustees of our three separate trust funds, as you are aware, reports yearly on the status of these funds and their economic well-being. We do projections for a 75-year period. I like to think of projections in smaller increments, 10, 20, and 25 years in terms of being more accurate in what we are saying.

The next 25 years, for example, 1980 to the year 2005, for me, represents a very long time indeed. The trust funds will run a surplus of 1.19 percent of payroll which is a hefty amount. Then when you get farther out for another 25 years, the years 2005 to 2029, which is even harder for me to focus on accurately, we predict there will be a deficit over those years of 1.17 percent in the trust funds. So if you look at it——

Senator CHILES. This means eating up the surplus and——

Mr. DRIVER. Running a deficit overall. In the third 25 years going out to the 75-year limit, the deficit for those years—2030 to 2054—is 4.59 percent. When you put all 75 years together, the three segments I have given you, the deficit for all 75 years is 1.52 percent of payroll. In the unlikely event that the 50- and 75-year projections were accurate or are as accurate as the first 25 years, the 75-year period has a deficit of 1.52 percent of payroll.

As you indicated earlier, the tax rate will go from 6.13 to 6.65 in January. The taxes that are scheduled in the statute will rise by 1 percent for employee and employer, each, over the 10-year period. The tax rates scheduled beyond the 10-year period are up 1.5 percent each, so that these are the specific figures that I like to look at in discussing the problems that we are facing. I think it is also important to point out at the outset that when you talk about social security you are talking about three basic programs.

The retirement program really was the one that received most attention in what I have heard in previous testimony before you. Certainly the retirement program representing as it does about three-fourths of social security benefits deserves that kind of priority, but in addition to that there is a disability program which does not reach necessarily into the upper age groups, and a survivor's program that provides benefits to the survivors of workers who die, sometimes early in life.

When you realize that 40 percent of all males who enter the work force today, and 28 percent of all females who enter the work force today, will either become permanently disabled or die between ages 21 and 65, you have to realize that these programs are also of vital importance and that their understanding on the part of the younger worker is a key element to the younger worker's appreciation of the overall social security program.

With that as background, I would like to say that we, of course, have paid attention to the reports of independent advisory groups that have been submitted. The last Advisory Council, as you know, has recommended in the area of finance, certain proposals to meet the early years' shortfalls and also to give a safety net aspect to things that could be adopted for the later years. The National Commission on Social Security which will report after the first of the year, has also made known its feelings in this regard. And we have looked at any number of possibilities that could be used to backstop the program and to deal with the current unease best summarized by your statement of the people whom you have talked to, and I have certainly seen this in my discussions around the country with various groups, "Will the program be there when I need it?"

I think the best ideas are those that involve some aspect of what the Carter administration recommended. First, the interfund borrowing authority. Interfund borrowing would permit us to move money from one of the three trust funds into another as the borrowing was needed and then put it back when, in later years, there is a surplus in the fund.

This would permit us, for example, today to go through at least 1982 under present financing arrangements with no need to intervene. Interfund borrowing, coupled, for example, as the last Advisory Council recommended, with general revenue borrowing authority and a payback provision, would also provide a very definite lift to the public feeling that indeed the moneys would be there when they are needed and would permit the program to glide through the short years, the lean years, if you will, of which we see some now, into those when we predict surpluses. These future surpluses permit us, for example, to say that in the next 25 years, while we will have a shortfall in the eighties, for those 25 years, we will run a surplus of 1.19 percent.

Obviously, another one would be to increase taxes to take care of any shortfall or to infuse general revenue moneys as has been recommended by the Advisory Council, for example, into the hospital insurance program which is not a program that is aimed at replacing lost income due to retirement or death or disability. One could infuse general revenues to support, in whole or in part, the hospital fund, and then to use hospital insurance payroll taxes which now total 1.05 percent of payroll to bolster the retirement and disability funds. This would solve all of the funding problems for those first two funds.

Obviously a third proposal could be a reduction in benefits and there have been a number of proposals recommended by various groups and opposed by others——

Senator CHILES. You are still talking about the short-term problem.

Mr. DRIVER. I am talking about the short term, specifically in the sense that in my opinion we are better able to solve problems of a deficit basis in 10, 20, or 25 years than we are the 75-year problem. However, increasing taxes, general revenue borowing or general revenue use, or reducing benefits are classic proposals that could solve short- and long-run problems. Obviously if the payroll taxes, for example, were to be increased whenever needed, there would be no long-run problem. While I am specifically talking in terms of the recommendations that have been made most recently about the short-range problem, I think that you have to keep these same solutions in mind for the long range, but then in the long range we naturally come up against the demographic problems that have been discussed previously.

We recognize, however, that in projecting figures, and particularly birth rates, the difficulty of being accurate in this area has been so well demonstrated in the past that to forecast the distant future with any reliability depending on demographic figures is pretty dangerous ground. However, using the demographic figures that are available, it is quite clear that we in America, face an increasing burden on the part of the worker in the out years considered against the balance that exists today.

Roughly, three workers support one retired person today. At the outer limit we project in about 2030 two workers supporting one retired person. So unless demographics shift from what they are today, that would be the picture, and we would then be facing the same picture that many European countries have already faced, and they have faced this with increases in taxes or infusion of general revenues in some amount to take care of the shift.

In addition to that, I think it is appropriate to discuss—and you have asked that I recognize this—that there are some inequities in social security today that have been brought up on the national scene by a number of groups. These inequities clearly will not go away until some attention is paid to them, and I speak principally of problems resulting from social security's impact on women. Women, when the act was passed, were primarily engaged in household duties. Today that picture has changed dramatically with women in the work force in increasing numbers and indications are that this will continue to increase in the future.

Many persons feel that as the program stands, a woman who maintains a household and does not participate in the work force is as well off or better off with the 50 percent spouse's benefit than she would be by working in a career and having an account of her own. This quite logically is raised as an inequitable situation, and I think that it probably will demand attention or at least consideration by the Congress at the same time that you are discussing financing either in the long term or the short term.

Another one of the proposals that have been discussed is the question of including the coverage of those who are not included in social security today, and that would be principally Federal employees who are excluded. About 90 percent of the working population is covered by social security, and the 10 percent remaining includes Federal, State, and local employees, and employees of private, nonprofit organizations.

A report has been submitted to the Congress that covers the various advantages and disadvantages of extending coverage on a universal basis. I am sure that this also will be considered in any discussion of short- or long-range financing. In the past the question of coverage of Federal employees has been considered several times by the Congress. It has certainly been considered by the executive branch, and each time it has been rejected, because no fair, workable proposal could be unearthed that would preserve the rights of those who are presently covered by a separate system from social security. I think that the new study that has been submitted by the Universal Social Security Coverage Work Group does give insights that will be particularly helpful in reaching some new conclusions in this area.

There are other things that have been proposed and some I have heard discussed here. Raising the retirement age certainly is a possibility. It would not solve the financing problems completely, but it would help. However, as I am sure you know—and if anyone does not he will soon discover—raising the retirement age flies in the face of current popular trends. The trend is the other way, most people retire before 65. Most people who draw social security draw it——

Senator CHILES. Do you think that trend is starting to reverse?

Mr. DRIVER. It did 1 or 2 years ago, but it has now gone back to the same trend and will increase for those who seek early retirement. Early retirement is popular and the demand for early retirement also would indicate that people would clearly resist raising the retirement age.

Lowering replacement rates of course is a possibility.

Senator CHILES. I really want to just ask you to excuse me and I interrupt you right there. We are in a vote, and so I think I will recess right now until I can get over there and vote and come back and let you finish. Excuse me for the interruption.

[Whereupon, at 12 noon, the committee recessed until 12:35 p.m.]

Senator CHILES. You had just about finished up your remarks. I might just mention to you we are starting in the silly season over there now and I think we are going to have a whole series of votes probably.

Mr. DRIVER. All right, sir. I am about at the end.

I had mentioned replacement rates, the question of indexing to prices or wages. As you know, that is currently under discussion and I think that for purposes of understanding in the general public it is fair to say that this has to be considered as a reduction in benefits and should probably be discussed in that fashion and I am sure will be.

Also, I would like to comment that the question of examining the Consumer Price Index used in making cost-of-living increases came up this morning. You will recall that the first budget resolution for 1981 called upon the executive branch to make a thorough study and submit a report to Congress on the whole question of indexing all Federal programs and I would assume that that study will be submitted shortly.

That, except for a reference to the idea of modifying the earnings test which has been discussed in some quarters and probably will continue to be, concludes my remarks. My feeling is that if an earnings test is eliminated and people on reaching 65 or 62, or any age in between, are permitted to draw social security benefits without regard to their work earnings, the idea has to be considered in the context of whether this is the place to put additional moneys in the social security program. Clearly these people would be those who would need the moneys least and when you consider that there are a substantial number of people drawing social security today who are in the poverty level despite that——

Senator CHILES. The question I think though, Mr. Driver, is how many people are there? I listened to the statistics that those that need the money least will be the ones that get the benefits and I am sure that there is some validity to that. How many people do not work, or curtail their work, that could use the additional income and still are not in the high brackets, in other words? But again, the earnings test is there, and people misunderstand that. Many of them don't take employment or only take employment up to a point, and then they immediately stop.

I run into older people that say: "I am a parking lot attendant but I can only work 3 months, and then I have to stop." They don't realize that you are taxing only a portion of their income. So how many benefits would we give those people if we removed the test; plus how much general tax revenue are we losing because those people don't work and because you have a number of people that refuse to be paid on any payroll? They go into the subterranean economy, and that number is very large, I think, because they only take a job where they are paid in cash, and so we lose that.

Mr. DRIVER. Except for that last category, which we have no basis for knowing, although I would agree with you that there is a figure there, it probably is increasing. But considering all the other features and with our best judgment about how many would return to work or would work more if they could and how much they would earn and how much would be offset, we still estimate that this proposal simply by removing the test at age 65 instead of 72—70 in 1982—would cost us $1.5 billion additional money.

Senator CHILES. So you are saying it will cost the trust fund?

Mr. DRIVER. Yes, sir.

Senator CHILES. Well, if then there was some adjustment made where we relieve the trust fund of some of the obligations, or put some general revenue in the hospital cost, maybe you could address that.

Mr. DRIVER. That is correct. Then I think you would have to put it in priority, where it is that you want to make any changes in the system considering all of the needs I mentioned, including the question of equity for women.

Senator CHILES. Well, you do know the questions of priority that are placed by the retired people on this test, and even though they don't benefit that much by it, they put it very high.

Mr. DRIVER. Yes.

Senator CHILES. Very, very high.

Mr. DRIVER. Yes.

Senator CHILES. The committee has heard several conflicting estimates on the number and percentage of social security beneficiaries who rely on social security for virtually all of their postretirement income and those figures have ranged from 20 to 60 percent. Could you set the record straight on the number and percentage of social security beneficiaries who rely almost entirely on their social security benefits? That is a question that Senator Heinz wanted answered.

Mr. DRIVER. Slightly more than 70 percent of all beneficiaries age 65 and over have no more than $5,000 of other income, from any source per year, than social security.

Senator CHILES. Seventy percent.

Mr. DRIVER. Yes, sir.

Senator CHILES. How many just have social security?

Mr. DRIVER. Well, I would say that about 26 percent of those 65 and older get 90 percent of their income from social security; 26 percent. Now there are a number of people as I indicated earlier, who are in the poverty level despite the fact that they are drawing social security benefits. The average payment of social security is over $300 a month.

Senator CHILES. Well, in this same area the committee has heard conflicting opinions on the role that social security should play. Some witnesses we have heard from felt social security in the Federal Government is supposed to play a larger role in supporting the elderly and disabled, and others disagree. Do you believe that social security should maintain its current role as a floor of protection, or should it be moving in another direction?

Mr. DRIVER. Well, I think on balance that if it were possible for the roughly 57 percent of the work force that are not covered by a private pension program at all to be covered by a private pension plan, ideally I think this would be the way to go. Private pensions are intended to be fully funded, therefore the money should be available for capital investment while they are awaiting payment to the beneficiaries, whereas social security is a pay-as-you-go program—we are taking the money in today and putting it out tomorrow for those who are retired.

However, as long as that large figure exists without any private pension coverage, I think there will be continued pressure to expand social security to make it more than a floor of protection to build economic security as was intended when the law was enacted and as is pretty much reflected in the payments today. As I say, the average payment of over $300 is not great in the sense of today's economy, and therefore there will be, I think, continued great pressure to increase this coverage to increase the benefits payable under it, unless private pensions are extended further than they are today.

Senator CHILES. I would like to ask you a few questions on the issue of universal coverage.

Mr. DRIVER. Yes.

Senator CHILES. You mentioned the fact that you had a study that showed the pros and cons. Does the administration take a position pro or con on universal coverage?

Mr. DRIVER. As of now, no, the administration has not taken a position. A good deal of analysis has gone into looking at the study, particularly in terms of ways and means that would be necessary if there were to be an extension of social security to Federal workers.

Senator CHILES. Do you have any estimates on the cost effects that this would have on the funds both in the short term and long term?

Mr. DRIVER. In the short term under several proposals for doing this, making it effective as of a certain day for new employees could be a short-term advantage to the trust funds, but in the long term the advantage would almost level off. That is, in the immediate years the proposal could be accomplished so there could be a modest or even a substantial increase in the social security trust funds under this extension.

Senator CHILES. Many of us are concerned about the windfall benefit or the double-dipping issue. Is there any way that Congress could change the law so that the needy poor workers could benefit from the minimum benefit and from the social benefits that go with that, but others with substantial pensions would not receive that?

Mr. DRIVER. I think you could draft legislation that would pinpoint what you want to do in this area. I don't think there is any doubt about that. I think it would be immediately attacked in the courts, however, as discrimination in the program and I don't know how successful that would be, but it would set up one class against another and quite obviously for that reason probably would be subject to attack. However, I think that legislative drafting with some precision could result in that being accomplished.

Senator CHILES. It is obvious from testimony that Congress needs to get to work right away on the short-term cash-flow problem. There are a number of ways to address that, and you brought up some of the ways, but timing could be important here. The Senate must reorganize because of the change in leadership, and we have a new administration coming in. Obviously, the sooner we start next year on this important question, the better. It is going to be a very busy year. Are you currently working with the Reagan transition people so that when Congress convenes next year we can expect to have an administration proposal early on?

Mr. DRIVER. Well, we certainly have, I think, all the data that is necessary for anyone to make a choice either of a preferred solution or a combination of choices that would result in such a solution and all of this data is being made available to the transition group.

Senator CHILES. Would you agree that it is something that we should be working on very quickly next year?

Mr. DRIVER. Yes, sir; you have brought out very clearly, it seems to me, the fact that this is the issue that is undermining the confidence of people in the program and it is therefore the one that should be dealt with at the very earliest moment.

Senator CHILES. Our committee this year held an interesting series of hearings called "Work After 65: Options for the 80's." Many people are advocating the need for encouraging workers to work longer and to retire later. Obviously such a trend would have a dramatic effect on the long-term cost of the program.

What suggestions do you have about how we could encourage later retirement? In particular, how do you feel about the idea of raising the delayed retirement credit under social security to a level of 7 percent or higher as an incentive for workers to hold off applying for their benefits?

Mr. DRIVER. I think that there would be an incentive that is not there today. The current 3-percent delayed retirement credit clearly does not attract anyone who works just for that reason; 7 percent would come closer to an actuarial figure and therefore should be an incentive. However, I think that this would have to be coupled with a monumental program in industry to make work at later ages more attractive as a general thing. It is today on a selective basis.

They can attract people to stay beyond 65 or 70 if they have unusual skills and industry wants them, but more and more it seems to me, industry and Government, too, has been urging people to take early retirement to try to solve problems like lower productivity in certain areas; or when a certain product in industry loses fashion and they want to cut back, they immediately start with the idea of persuading people to retire at 55 and giving them bonuses to get out. These programs, it seems to me, are in conflict with this kind of an effort to encourage early retirement and they ought to be examined together. Clearly something approaching an actuarial increase would be an incentive for continuing to work, where today the 3-percent credit clearly is not doing so.

Senator CHILES. In addressing the long-term financing program, which I feel Congress should consider, would you give me your view as to whether the changing of the method of indexing based on prices rather than wages is a good idea?

Mr. DRIVER. Well, I think it is a good idea if you can do it after the fact. In 1977, when the index feature was fixed, the extent to which wages would lag behind prices in the inflationary spiral was not generally foreseen. Prices have been increasing faster than wages, which as you know, lagged far behind. If we could predict the courses of wages and prices clearly, that would be fine, but I think that today it is really taking a shotgun approach to try to do that. You will find, I think, it will be very difficult to come in with an index feature that would be more appropriate than what we have got now.

Senator CHILES. Well, would you give me your opinion then as to whether or not we should raise the retirement age as one of the ways of solving our long-term deficit?

Mr. DRIVER. Well, raising the retirement age obviously would save money. Raising the retirement age, as was indicated earlier, is maybe less undesirable than reducing benefits but raising the retirement age flies clearly in the face of the trends that are going on today and that demonstrate the wishes of the average worker. The average worker wants to retire after 30 or 40 years of work. It seems to me they don't want to work on a mandatory basis beyond 65, until they would be eligible for full benefits. I think that if there was a popular vote taken today that it would come out in favor of retiring at 62 rather than 65; but raising the retirement age would save money.

Senator CHILES. If I had my choice, I would like to have the age be 50, maybe.

Mr. DRIVER. Right.

Senator CHILES. It is a magic year for me.

Mr. DRIVER. But the precedent has been there for so long that it is not just a case of saying let's take a new look at this, it is saying let's take a new look at this, and make it difficult for you to retire at 65, when millions have had this in the past and that is what makes it so hard to discuss it. I have not found an audience anywhere that was receptive to that idea, and as you indicated it clearly flies in the face of what everyone would personally want.

Senator CHILES. One of the things that appears to happen to us here is that people recognize generally that there is a long-term problem, and we have to do something about it. There are several ways that you can deal with that. One of the ways is perhaps universal coverage over a long period of time, another way is to raise the retirement age, another way is to reduce the benefits, another way is to change the index so that you come out with something that reduces benefits, another way is to raise the taxes that we levy.

Mr. DRIVER. Right.

Senator CHILES. We have not found anybody that selects, you know, any of those ways as being a way to do it.

Mr. DRIVER. I think if they were looking at their own benefits they would probably vote to raise the taxes rather than to reduce the benefits.

Senator CHILES. Well, I wonder if that is who we are talking to because we have not had the panel of young workers here yet. We have not had the people who are paying now and who next January are going to be paying a little bit more, and I doubt very seriously that they would agree with that.

Mr. DRIVER. If you look at other countries that faced this problem at earlier times than we have, the favorite route has been to increase the revenues to pay for it either by using general revenues, which of course uses moneys that all workers paid in, or by increasing payroll taxes in combination with that.

Senator CHILES. At what point do we run the danger, if you will give me your opinion on this, if we add in general revenue funds that we lose the one thing that social security seems to have now, and that is this tax benefit equation that people recognize, that the money they are paying into social security is going to provide a benefit for them or for someone that is retired. If we uncouple that connection, we run the risk that benefit demands will become much greater because you can't see that the direct benefit is something that comes out of my paycheck—you lose the credibility of this benefit.

Mr. DRIVER. I think I personally would avoid that in any event in the use of general revenues by concentrating solely on the hospital fund.

SENATOR CHILES. I agree there is a more logical basis for placing it there. It is part of the original system, not part of the retirement system. We have used general revenue to pay for medicaid benefits and part of medicare. Those programs do not have to do with retirement so directly.

Mr. DRIVER. I think that probably would be the most popular solution, using general revenues. I think you are quite right to not bring general revenues to the retirement or disability funds.

Senator CHILES. Again you recognize when we talk about using general revenue we are not dealing from strength because we have a deficit.

Mr. DRIVER. Yes, sir.

Senator CHILES. That is what everyone generally acknowledges that the election was about, the continued deficits the Federal Government has been running. We see the tremendously increased pressure to work in the direction of reduced deficits and obviously to work on inflation as well.

Mr. DRIVER. That is correct, and that is probably the reason why some people, for example, favor general revenue with the payback provision rather than just infusion of general revenue with no provision for payback.

Senator CHILES. That again as I understand it is the correction of the short term.

Mr. DRIVER. If you look at the 25-year period, it would indicate that we would run a surplus over the 25-year period.

Senator CHILES. I see.

Mr. DRIVER. And you would have much more accurate figures in 10 years about what is going to happen in that second 25 years, than based on our 50-year projections today. When you get into the 75 years where the total deficit is——

Senator CHILES. While that seems like almost the easiest solution or the easiest way, I wonder what that does to your credibility quotient out there, the Government borrowing from itself.

Mr. DRIVER. Then I guess I go back to the general revenue borrowing with the general payback provision and look at it every year, that this clearly seems to me is the safest way to go.

Senator CHILES. Is looking at that every year like looking at the debt ceiling every year? We look at that every year and we have to raise it every year.

Mr. DRIVER. Well, you are dealing with indicators that are very difficult to pin down as we have all found to our amazement, sometimes if not our sorrow, and therefore, I don't see any other way except to keep looking at them year after year and try to follow as precisely as we can the directions to go in. Increases in taxes coupled with general revenue borrowing and payback keeps everybody's attention, too.

Senator CHILES. I suppose so. I tend to think though that the Congress should try to come up with a package where we can say, to the best of our knowledge and ability, we now have tried to take care of the short- and long-run problems. In other words, we have made what we think is the best fix, recognizing that in 1977, we thought we had done that and that we may have to make some changes in the future. But I think we have a better opportunity to go out and sell that, and we have a better opportunity of giving the people some full faith in what we are doing, especially if you could get a bipartisan approach and understanding. That is again why I want to thank you today for your testimony and for the information you make available to us. It seems to me this is a subject where, if we can get enough light on it, maybe we can come up with some consensus program, and I think that it is tremendously important to do that right now.

Mr. DRIVER. Thank you, sir.

Senator CHILES. Thank you very much.

Mr. DRIVER. Thank you.

Senator CHILES. We will adjourn these hearings now and our record will be open for a period of 10 days.

Thank you.

[Whereupon, at 12:45 p.m., the hearing adjourned.]

APPENDIX

SORTING OUT THE ISSUES IN SOCIAL SECURITY FINANCE: AMERICAN POLITICS AND PUBLIC OPINION [1]

1. Introduction: Public Opinion and Social Security Politics

Social security, in its present state, is a well-regarded social institution. People are generally aware of and accept the principles of funding and benefit payment that regulate the system. In the past, there has been a great deal of public support for expanding the scope of public participation in the social security system. Similarly, there has been a great deal of support for increasing the amount of personal payroll (and employer) tax paid for social security when the purpose of the tax was to increase the amount and scope of benefits provided to each participant in the program.

The problem is that social security cannot continue in its present state. The demographic composition of the society is changing in such a way that some change in funding principles is required to guarantee the benefits of workers currently in the labor force who will retire in the early part of the 21st century. The 1979 Social Security Trustees Report observes that "the cost of the OASI program is projected to be a relatively constant percentage of taxable payroll during the remainder of this century. After the turn of the century, it is projected to increase rapidly to a peak around 2035" (Blumenthal et al., 1979, page 50). The principal difficulty for the future of social security financing is that under any reasonable set of assumptions the ratio of the number of contributing workers per beneficiary will fall drastically after the year 2000. Simulation model III in the trustees' report, which assumes a continued slight decline in fertility in the next decade, projects that the number of covered workers per beneficiary will fall from its current level of 3.2 to 2.9 by the year 2000. After that time the drop will be more extreme: the ratio in 2010 will be 2.5; the ratio in 2020 will be 1.9; in 2030 it will be 1.6. and in 2040 it is projected to be 1.4 (Blumenthal et al., 1979, page 51).

One way of handling this situation is to keep the level of social security taxation about the same and reduce the level of benefits to retired workers. This alternative, however, has been rejected by most who have seriously considered the problem because it would meet too much public opposition. The public believes that retired persons should live at their usual and customary standard of living and that social security benefits are, if anything, currently too low for many. An August 1978 Harris poll of currently employed persons found that 89 percent thought that a retired person should enjoy the same or a better standard of living as compared to when he or she worked. The corresponding level of support for this proposition among retired persons in 1978 was 92 percent (Harris, 1979). (The question was: "When a person retires, do you think their standard of living should be higher than before they retired, lower than before, or about the same as it was before retirement?")

On the question of the adequacy of social security benefits, the Harris survey asked the sample of retired workers: "Overall, does your present income provide you with a more than adequate standard of living, an adequate standard of living, or a less than adequate standard of living?" Twenty-three percent of those receiving social security and some other form of pension replied that their income was less than adequate. Of the approximately one-fourth of the sample of retired persons who were receiving only social security, 56 percent said that their income was less than adequate.

[1] Prepared by D. Garth Taylor, Department of Political Science and National Opinion Research Center, the University of Chicago. Mr. Taylor's statement appears on page 274.

To maintain the standard of living of future cohorts of retired workers, more resources will have to be made available for social security payments. To meet this need some type of increased taxation is necessary. There is, and will continue to be a public debate on the principles that should guide the expansion of social security taxation. Although there are few who object to the current operation of social security, there are many who object, in principle, to increased rates of taxation and who object, in principle, to further government participation in social insurance programs. The lines of debate on the future of social security will eventually encompass these ideological schisms in American politics.

Economically speaking, the debate about the expansion of social security taxation could not come at a worse time. The public's perception of the health of the American economy and people's views of the security of their own financial position are currently more pessimistic than at any time since the founding of the social security program. Various measures of consumer optimism collected by the Institute for Social Research at the University of Michigan, some since the 1940's, show a lower level of public optimism now than at any previously recorded time. The trend in one such measure—the percent saying they expect their financial position to change for the worse in the next 12 months—is shown in table 1. Since the early 1960's, the level of pessimism has increased from 6 or 7 percent to an average of 19 percent since 1973. The last two data points are from the 1976 and 1978 Michigan election studies and mark public attitudes at the beginning and at the middle of the Carter administration.

TABLE 1.—*Trend in the percent saying they will be "worse off" in the next 12 months*

Year:	*Percent "worse off"*
1960	6
1961	6
1962	7
1963	6
1964	7
1965	6
1966	10
1967	10
1968	9
1969	12
1970	12
1971	11
1972	8
1973	17
1974	22
1975	16
1976	12
1978	26

Source: 1960–75 percentages are averages of quarterly estimates from the University of Michigan surveys of consumer finances. 1976, 1978 percentages are from the 1976 and 1978 University of Michigan election surveys.

Between November 1976 and November 1978, pessimism about one's own financial future increased 14 percent. Table 2 shows that the increase was greatest among people over 65 years of age, and particularly among those with a low income in that age group. The increase in pessimism was lowest in the young age group (18–35 years). It is interesting to note that pessimism about one's future finances is not strongly or consistently related to one's family income. Even though the question taps economic pessimism, it is pessimism with respect to one's ability to continue one's usual standard of living. In sum, table 2 shows that in recent years the oldest have been hardest hit economically, but that all age and income groups show increased unhappiness with their financial position. The debate about increased taxation for social security is, unfortunately, occurring during a time of increased financial strain for all.

TABLE 2.—PROPORTION SAYING THEY WILL BE "WORSE OFF" IN THE NEXT 12 MO., BY AGE AND INCOME IN 1976 AND 1978

Age	1976 Income in 1976	1976 Proportion	1978 Income in 1978	1978 Proportion	Change 1976 to 1978 (percent)
18 to 35	0-$8,000	0.134	0-$11,000	0.175	4
	$8,000-13,000	.094	$11,000-17,000	.217	12
	13,000-20,000	.069	17,000-25,000	.192	12
	20,000+	.088	25,000+	.187	10
Average		.097		.192	10
36 to 54	0-8,000	.148	0-11,000	.321	17
	8,000-13,000	.165	11,000-17,000	.383	22
	13,000-20,000	.097	17,000-25,000	.324	23
	20,000+	.115	25,000+	.314	20
Average		.125		.335	21
55 to 64	0-13,000	.158	0-17,000	.376	22
	13,000+	.122	17,000+	.303	18
Average		.142		.347	21
65 and over	0-8,000	.122	0-11,000	.402	28
	8,000+	.123	11,000+	.333	21
Average		.122		.381	26

Source: 1976 and 1978 Michigan election surveys.

Possibly because of the current financial strains on American workers and possibly because of the political conflicts latent in the debate over refinancing, the public does not have a great deal of confidence in the future of social security. The Harris survey asked: "How much confidence do you have that the present social security system will be able to pay you benefits when you retire—a great deal, some, or hardly any confidence at all?" Fifty-one percent of those under 35 years of age said they had hardly any confidence (10 percent said a great deal). Among workers near retirement age (50–64 years) 28 percent indicated hardly any confidence (and 28 percent a great deal).

In the remainder of this essay, we will examine the social and political issues bearing on social security refinancing. It is unwise to use public opinion data to make firm projections about political developments. However, it is safe to assume that in a time of change the economic interests and political ideologies bearing on social security finance will come into play. The economic interests to be considered are those affected by the type of expansion that is to occur in social security taxation. Plans for financing that are based on general revenues (Federal income taxes) and expansion of other programs of social insurance are generally understood to be progressive forms of taxation. On the other hand, plans for financing that are based on payroll taxes (the way they are currently calculated) and value added taxes are generally understood to be regressive in nature. The 1979 Advisory Council on Social Security made the following proposal for refinancing, which includes both progressive and regressive features as well as an expanded role of medicare and hospital insurance:

"The council unanimously finds that the time has come to finance part of social security with nonpayroll tax revenues. The majority of the council recommends that the hospital insurance program be financed entirely through earmarked portions of the personal and corporation income taxes and beginning in 1980, that a part of the current hospital insurance payroll tax be diverted to the cash benefits program to guarantee their financial soundness, and that the balance of the hospital insurance payroll tax be repealed.

". . . The council majority recommends that the social security cash benefits program be brought into long-run actuarial balance by scheduling a payroll tax rate increase in the year 2005.

"The council unanimously rejects the use of a value added tax to finance social security." (Aaron, 1979, pages 1–2).

If the Advisory Council report can be taken as a guide to the issue, the future of social security finance will involve public debate over: higher levels of taxation; the use of Federal income tax revenues; the role of national health insurance programs; and the value added tax. National medical insurance, increased rates of taxation, and use of payroll versus general revenues are all issues with a well-established history and pattern of political conflict in America. The public opinion data presented in this essay allow us to form some impression of the extent of disagreement over each issue on the social security agenda. In section 2 we examine the historical basis of the impending conflict over social security finance. Employer-employee differences in priorities for funding and the history of political party differences on spending for social insurance will be considered.

We will learn in the next section that social security refinance is the type of issue where the majority of the American public usually prefer the "activist," "liberal," or "progressively taxed" alternative. Even though this is the majority position, the public can be persuaded to support some other approach to financing social insurance programs when there are cross cutting forces or cross cutting political issues that convince the public that personal interests or important political principles are at stake. Sections 3 through 6 of this essay examine several of the most important cross cutting issues.

The public response to inflation, considered in section 3, cross cuts the social security issue in several ways. Fears of inflation and the economic hardships produced by inflation cause a greater demand for an expanded, progressively financed system of social insurance. However, high rates of inflation also cause a more widespread view that government spending (and social insurance programs) are economically unhealthy and should therefore be cut back. The effect of inflation on social security finance will depend on which view of inflation prevails.

Section 4 examines tax politics as a cross cutting issue. A strong political movement for tax reduction will limit the room for maneuvering when plans are made for future social security financing. The money that is needed to continue the usual level of social security benefits will not be available. Even though the issues are thus linked economically, the public does not join tax resentment with opposition to social security spending or social security financing. In terms of economic interests, the "tax revolt" is an issue embraced by the wealthy and by the Republican Party, as the analysis in section 4 of support of proposition 13 shows. The politics of taxation present cross cutting issues with respect to social security finance because in many cases those who stand to lose the most from the proposed changes in the tax structure are as likely or more likely to support the change. The reason for this anomaly is that tax resentment is often an indicator of financial insecurity and resentment against or lack of trust in the government. Opposition to certain proposals for social security finance can be expected to arise from quarters where there is high resentment against taxation and against the government unless the issues are carefully presented in a way that clarifies the economic interests at stake and reaffirms the public commitment to the principles of the social security system.

The fifth section examines a cross cutting concern that is more directly in the realm of social psychology. There are substantial age and income differences in the degree of personal sensitivity to and concern for the problems of the aged. At the present time, as is usually the case, those who will bear the financial burden of social security refinance are least disposed to help the aged. However, there is evidence that values may be changing and that the problems of social security refinance will be somewhat eased by a greater sensitivity to the problems of the aged in today's younger generations.

The final cross cutting issue to be examined is national health insurance. The Advisory Council report explicitly raises some issues bearing on an expanded role for national health insurance as one strategy for social security refinance. Even without this red flag, it is certainly the case that expanded social security taxation will call into play some of the political forces and lobbies connected with the issue of national health insurance. The effect on public opinion of the last decade of maneuvering on the national health insurance issue has been to increase the percent who say they do not know enough about the issue to have an opinion (from 14 to 21 percent between 1970 and 1978, using one repeated opinion measure from the Michigan election studies). The perceived economic interests in national health insurance and the the effect of cross cutting issues in mitigating those interests are examined in section 6.

2. Class Politics and Social Security Finance

There are strong social class differences on most detailed proposals for alternatives and priorities relating to social security finance. There is little support for the idea that employers should pay all of the social security tax. A 1938 Gallup survey found 85 percent responding negatively to the question: "Do you think the social security law should be changed to make the employer pay the whole amount of the security tax?" Similar questions since that time lead to the same conclusion.

The type of tax used to arrive at the employee contribution, however, is the subject of a fairly wide social class difference. The Harris survey of American attitudes toward retirement and pensions asked a sample of current and retired employees and a sample of business managers from private industry the following question: "In general, do you think social security benefits should be paid from social security taxes, or should all or part of the money come from other sources?" The general population of current and retired employees was almost evenly split. Forty-five percent favored social security taxes alone and 47 percent preferred payments funded all or in part from other sources of revenue. (Eight percent were not sure.)

The sample of business managers was drawn from a cross section of companies appearing in the Fortune 1250 list and in the Dun & Bradstreet Million Dollar Directory. This sample was comprised mainly of corporation presidents and vice presidents (56 percent); operations managers and senior financial officers (37 percent); and the remainder pension fund administrators or special assistants to the executive officers who were designated as knowledgeable about the company's pension program. These respondents represent the interests of corporation in particular funding altenatives for social security financing. The responses of these individuals are also indicative of the views of the upper middle class of managers and administrators and, in fact, represent a particularly well-informed segment of this population .

The business managers have quite a different preference for the source of social security financing. Seventy-nine percent think that social security should be funded completely by employer and employee contributed payroll taxes. Only 20 percent think that some other source ought to contribute to social security funding.

When the issue of social security funding is put in the context of the current crisis in funding the pattern of support for general revenue funding is the same. Both samples were asked: "(As you know,) last year Congress passed a law that increases the social security taxes paid by employers and employees every year for the next 10 years. This was done so that the funds coming into the social security system could keep up with the benefits being paid out. Before the law was passed, more money was being paid out than was being collected. Which do you think should have been done—to increase social security taxes, to keep social security taxes the same and reduce the benefits being paid out, or to keep social security taxes the same and use other taxes to help support social security?" Forty-seven percent of the working population preferred the use of other tax dollars, while 30 percent were willing to see an increase in social security taxes. Seven percent favored reduced benefits and 16 percent were not sure. In contrast, the business managers were most likely to favor increased taxes (49 percent) and were much more likely to favor reduced benefits (22 percent). Only 23 percent were in favor of revenue from other sources.

The same lines of employer-employee conflict will be apparent when the issue is the modification of social security to control the effects of inflation. Table 3 shows the willingness of each group to take various measures to control inflation. Workers are more responsive than employers to wage and price controls (3 and 4). Employers, on the other hand, are more positive than workers toward the possibility of increased unemployment and/or lower wage increases (items 5 and 6). Both employers and workers tend to be in favor of a reduction in government services (items 1 and 2). The workers support this proposal because of the belief that government spending causes inflation, because the specific services to be reduced have not been named (specific proposals usually produce less support unless the service named is "welfare"), and because there is a growing belief among workers than the government just wastes the money anyway. The hostility to government services among employers is so great that it can be thought of as part of the ideology of this class of people.

TABLE 3.—SOCIAL CLASS DIFFERENCES IN WILLINGNESS TO ACCEPT VARIOUS CONDITIONS TO HELP CONTROL INFLATION

Condition	Percent "very willing to accept" — Working public	Business Managers
1. Less Government spending and a reduction in Government services	64	97
2. Lower taxes and a reduction in Government services	48	76
3. Tough Government measure to keep business from raising prices	50	9
4. Wage and price controls	36	6
5. Lower pay increases	21	45
6. A higher rate of unemployment	7	21

Source: Harris Survey of American attitudes toward pensions and retirement.

It is clear that business leaders will pursue their own interests in the debate over social security refinance. These interests include: a reduction in the provision of any sort of government services; opposition to cost of living increases; and a minimization of the amount of money that is paid to employees. The latter point is clarified in the Harris survey where business managers were asked to compare private pension plans covering employees in private industry to government pension plans covering Federal, State, and local government employees. About 75 percent thought that the government plan provided higher benefits, but over 90 percent thought that the private plans were better run. For business managers an important criterion for a well run program is a lower level of benefits. Other points of disagreement between employers and employees over pension fund financing include the ability to transfer benefits in the event of a change of employers and a guarantees level of pension benefits. Workers are more likely to favor transferability and a guaranteed level of benefits. The risk-averting character of retirement planning is illustrated by workers' responses to the question: "Would you rather have a pension plan that provides small benefits that you are guaranteed to get, or a plan that provides larger benefits that you are not guaranteed to get?" Seventy-five percent of the employees sampled preferred smaller, guaranteed benefits. A significant number of the business managers misperceived this preference—33 percent thought that the majority of their workers would prefer a plan with larger guaranteed benefits. Table 4 summarizes the emphasis given by business managers and employees to various pension plan characteristics.

TABLE 4.—CLASS DIFFERENCES IN THE IMPORTANCE OF VARIOUS PENSION PLAN CHARACTERISTICS

Characteristic	Percent "extremely important" — Current and retired employees	Business managers
1. That pension benefits go up as the cost of living goes up	66	13
2. That pension benefits are guaranteed regardless of what happens to the pension fund investments made over the years the employee worked	61	46
3. That pension benefits are provided for the spouse in case of death	56	43
4. That the pension provides enough monev to maintain the same standard of living as before retirement	47	11
5. That once qualified under an employer, one can change employers and still collect	43	46
6. That once qualified under an employer, one can transfer benefits to another pension plan if one changes employers	39	8
7. That the pension provides less money than one made working, but enough to maintain an acceptable standard of living	32	35

Question wording: "I'm going to read several characteristics of pension plans. For each, please tell me how important you think it that a pension plan have that characteristic—extremely important, very important, only somewhat important, or not important at all" (The wording was changed slightly for employers to refer to their employees.)

Source: Harris Survey of American attitudes toward retirement and pensions.

The purpose of this section is to show that there are class differences in preferences for social security funding alternatives. In general, workers favor a more generous plan, a plan that is indexed to inflation, and a plan that is financed partly with general revenues. Business managers generally believe that these alternatives violate important principles regulating the government's role in social welfare activism and that these alternatives are fiscally unsound and/or not possible to accomplish.

In the past when social issues have pitted the "activist" interests of the working class against the "conservative" interests of the employers, the issues have been joined vigorously by the national political parties. Sundquist (1968) describes the relation between party alignment and voter interests in a wide range of social issues in the 1950's:

"During President Eisenhower's second term, as the party division [on a range of social issues] became increasingly sharp and clear, the two parties appealed to these opposite facets of the voters' collective intelligence—the Democratic party to their latent activism, the Republican Party to their basic conservatism. * * * [In terms of potential political dividends], the Democrats had the better of the argument. A review of public opinion polls of the period makes it unmistakably clear that the Democratic program was genuinely popular. In all of the published national polls, direct questions regarding the specific legislative issues in the fields covered by this study brought forth, almost without exception, expressions in favor of the activist position." (Pages 441–442.)

We conclude that employees and retirees prefer a subsidized, indexed social security program and that the Democratic Party will face pressure to join that side of the issue. The workers position is not without qualification, however. Some of the most fascinating results from public opinion research come from analyses of cross cutting issues and cross cutting concerns. We have seen, for instance, that a majority of workers favor reduced taxes and reduced government spending on social programs as a way to combat inflation even though they prefer increased social security benefits (a government program) as a way of compensating for the effects of inflation. A second cross cutting pressure on the issue of social security finance is party identification. Older Americans have more to gain from a subsidized, indexed social security system. However, because of past political traditions and changing values in the society, older Americans are more likely to respond to arguments for what Sundquist calls "basic conservatism." Similarly, older Americans are substantially more likely to be Republicans. Conservative and/or Republican old people may be persuaded to oppose an indexed, subsidized social security program even though such a program would be in their economic interest. The cross pressure might work the other way as well: the Republican Party may speak silently on this particular social program for fear of alienating another large section of its membership. The next four sections of this essay examine in more detail several issues that cross cut support for social security financing alternatives.

3. Inflation Politics and Social Security Finance

It is difficult to write about the politices of inflation when there is so little accepted public understanding of the causes of inflation. We do know that the public regards inflation as a political problem—an issue that should be handled by the government—and that the public is responsive to inflation as a political issue. The 1976 and 1978 Michigan election surveys asked respondents: "Thinking about the steps that have been taken to fight inflation, would you say that the government has been doing a good job, only fair, or a poor job?" In November 1976, 28 percent of the population thought the government was doing a poor job. By November 1978, the level of dissatisfaction has grown to 46 percent.

The public also perceives an impact of inflation on the standard of living. The Harris survey of American attitudes toward pensions and retirement asked current and retired employees: "What impact does inflation have on your standard of living—would you say it seriously reduces your standard of living to some degree, reduces your standard of living to some degree, or does it have almost no effect at all on your standard of living?" Thirty-one percent of current employees and 42 percent of retirees said that inflation seriously reduced their standard of living. The difference between current and retired employees is largely explained by income. Of those making less than $7,000 in 1978, 62 percent said that inflation seriously reduced their standard of living. Whereas, of those earning more than $25,000 only 20 percent were so affected.

Cost of living adjustments can ease the impact of inflation, but they are also thought, by some, to be one of the causes of inflation. Whether it is caused by class differences in the impact of inflation or by commitments to different views of the social security system, there is an employer-employee difference in the priority assigned to cost of living adjustments. Some of this information was presented in the previous section of this essay. In addition, the Harris survey asked: "Over the next 5 years, do you think social security benefits should be reduced, kept the same, increased with the cost of living, or increased faster than the cost of living?" Eighty-six percent of current and retired employees said that social security payments should be increased, 62 percent of business managers agreed.

To summarize so far: inflation is seen as a political issue; it produces negative economic effects, more so for poorer people; and there is division of opinion between employers and workers on the suitability of cost of living adjustments as a remedy. The enigma for the political scientists is that in the period 1976–78 the growth in public dissatisfaction with the government's inflation policy (as measured by the Michigan question) was greatest among those who were least affected by inflation (as measured by the Harris questions). Part of the problem for the analyst is that not only did the rate of inflation increase between 1976 and 1978, but there was also a change in the political party controlling the White House. In 1976, Democrats were more dissatisfied with the government's inflation program; in 1978, the Republicans were more dissatisfied. Part of the change in public dissatisfaction is, therefore, explained by party loyalties. But the full accounting for the change must explain two complications. First, Democrats did not become more satisfied during the first 2 years of the Carter administration. Their level of dissatisfaction, in fact, rose slightly during this time. Second, within each party (and for independents) those with high incomes became more dissatisfied between 1976 and 1978 than those with low incomes.

Table 5 shows the percent thinking the government is doing a poor job with inflation among Democrats, Independents, and Republicans at different income levels in 1976 and 1978. This table shows the patterns of change described in the previous paragraph: (1) Republicans and Independents became more dissatisfied faster than Democrats; and (2) within each category of political party preference, people with a high family income became dissatisfied faster than those with a low family income.

TABLE 5.—PROPORTION THINKING THE GOVERNMENT IS DOING A "POOR JOB" DEALING WITH INFLATION, BY INCOME AND POLITICAL PARTY IDENTIFICATION FOR 1976 AND 1978

Party identification	Income in 1976	Proportion "Poor job"	Income in 1978	Proportion "Poor job"	Change (percent)
Democrat	0–$8,000	0.377	0–$11,000	0.363	−1
	$8,000–13,000	.398	$11,000–17,000	.394	0
	13,000–20,000	.348	17,000–25,000	.407	6
	20,000 +	.327	25,000 +	.417	9
Average		.368		.388	2
Independent	0–8,000	.237	0–11,000	.422	19
	8,000–13,000	.309	11,000–17,000	.511	20
	13,000–20,000	.240	17,000–15,000	.497	26
	20,000 +	.255	25,000 +	.544	29
Averag		.258		.489	23
Republican	0–8,000	.170	0–11,000	.434	26
	8,000–13,000	.192	11,000–17,000	.636	44
	13,000–20,000	.128	17,000–25,000	.535	41
	20,000 +	.096	25,000 +	.593	50
Average		.143		.542	40

Source: 1976 and 1978 Michigan election surveys.

This analysis of inflation politics suggests that the Democrats did not become more satisfied because, in fact, inflation was worse under Carter than it was under Ford. The Republicans and Independents became much more dissatisfied because inflation was a problem and also because they were not bound by party loyalty to support the policy of the incumbent. The question is why did those with a higher family income become dissatisfied faster than those with a lower family income, especially when the Harris questions considered earlier in this section show a general awareness that the poor suffer a greater decline in standard of living during periods of inflation.

One possible explanation is that wealthier people are losing relatively more by inflation, but this loss is not having as much of an effect on their standard of living. A salary policy that granted smaller percentage increases to higher paid personnel would have this effect. The explanation for the greater dissatisfaction among the higher income people is that they want to regain their relative advantage, even though they are not suffering with smaller percentage increases. This interpretation may explain why, in table 2 there is very little relation between income and the percent saying they expect to be worse off in the next 12 months.

A second possible explanation that receives a great deal of support in the next section is that wealthier people have a great deal more understanding of economic issues and also of the avenues (and utilities) of political participation. When cost of living adjustments are to be paid one of the first options examined by a Democratic administration is a tax increase for high income families. The explanation of the pattern in table 5 is that those with high incomes (even high income Democrats) began to express dissatisfaction with the government and mobilize in other ways to prevent tax increases.

If these interpretations of inflation politics are correct then what can we expect in the near future? The mobilization of Republicans and high income people (and especially high income Republicans) will increase the pressure for a clearly defined party alignment on methods of taxation to be used to finance cost of living adjustments. We can expect that the substantial differences between the Democratic and Republican Party policies will follow the progressive-conservative considerations for taxation and social policy outlined in the previous section. The second implication is that the defenders of the Republican position will try to convince middle and low income people to vote for that point of view. Some of the cross cutting issues that can lead to low income support of Republican tax and inflation policies are outlined in the remaining sections of this essay.

4. Tax Resentment and Social Security Finance

There is some questions as to whether the national mood of tax resentment, typified by demands for sweeping Federal tax cuts and proposition 13, includes opposition to social security payroll taxes. In describing the situation facing advocates of Federal spending 20 years ago, Sundquist (1968) notes that:

"Congressional polls during the (early 1960's) showed overwhelming voter allegiance to the general principles that the budget should be balanced by cutting spending rather than by raising taxes, and that debt reduction should come ahead of tax reduction in the event of a surplus. But while the voters emphatically endorsed spending reductions if necessary to balance the budget, they tended to respond quite differently when the proposal was for reductions in particular areas of expenditure or when they were asked to consider government spending in a question that did not mention deficits or debt." (Pages 452–453.)

A Gallup poll conducted at that time (December 1965) asked respondents: "Would you be willing to have more money deducted from your pay check in order to increase social security benefits to retired workers, or not?" Fifty-two percent were willing to endure further deductions while 37 percent were not (Gallup, 1972 (page 1932). A Harris poll conducted 8 years later (February 1973), when people were less optimistic about their future economic position found that 70 percent agreed with President Nixon's proposal for increased social security payments. Twenty-four percent agreed with the President's proposal to cut back in Federal aid for building new hospitals and only 5 percent agreed with his proposal to "make older people pay more than they now pay for medicare" (Harris, 1973). The recent Harris survey of American attitudes toward pensions and retirement asked another variation of this question that emphasized the effects of inflation and the financial sacrifice for the taxpayers:

"Retired people who are on fixed incomes are hard hit by inflation these days. One of the ways of dealing with this problem has been to add cost-of-living provisions to social security and pension plans, so that the income of retirees can keep up with inflation. The problem with this is that the increased cost of pension and social security benefits will have to be made up by higher pension contributions and social security taxes from people who are working today. Which do you think is the right thing to do—to collect more money from people who are working so the incomes of retirees can keep up with inflation, or to let retirees do the best they can and to keep the pension and social security benefits of retirees the same as they are now?"

Sixty-seven current employees were willing to pay higher taxes and 27 percent were not. (Fifty-seven percent of business managers were willing to have their employees pay higher social security taxes, while 40 percent preferred to let the retirees do the best they can without an increase in benefits.)

The impression one draws from these data is that the public is willing, in principle, to pay additional payroll taxes to finance increased social security benefits for retired workers.

On the other hand, we are currently living in a time when public resentment of Federal taxation is as high or higher than it has ever been (at least since public opinion researchers began measuring tax resentment in 1948). Forty-seven percent of the population reported that they knew of and favored proposition 13 in the 1978 Michigan election survey. The question was:

"In June, the voters in California passed proposition 13, which reduced property taxes by more than half. Opponents of the measure said that the tax cut would force local communities to reduce services. Have you heard or read anything about this California property tax vote? [If yes] If you had the chance would you vote for or against a measure similar to proposition 13 in your State?"

In the same survey 27 percent were willing to go so far as to endorse the statement that "Federal income taxes should be cut by at least one-third even if it means reducing military spending and cuting down on government services such as health and education."

Is there a connection in public opinion between tax resentment and preferences regarding social security refinance? Clearly, if the pressures for tax reduction continue to be successful then there will be less revenue available for social security. The question is: is this an intended consequence of the movement toward tax resentment? To explore this question we will examine three aspects of the trend toward tax resentment: the perception of government waste; the perception of undue tax burden; and public demands for tax abatement.

GOVERNMENT WASTE

Almost every Michigan election study since 1958 has included the question: "Do you think that people in the government waste a lot of money we pay in taxes, waste some of it, or don't waste very much of it?" The trend in the percent saying the government wastes a lot of tax money is shown in table 6.

TABLE 6.—*Trend in the percent who believe the "government wastes a great deal of tax money"*

Year:	*Percent*
1958	45
1964	48
1968	61
1970	70
1972	67
1974	76
1976	76
1978	79

Source: Michigan election surveys.

Even in 1958, there was a fairly high degree of cynicism—45 percent thought the government wasted a lot of tax money. Since 1964 the degree of cynicism has increased by over 2 percent per year so that by 1978 over three-fourths of the population believes a great deal of tax money is wasted. Some simple calculations show that since 1964 an average of about 3 million adults per year have changed from a pro-government to an anti-government position on this issue.

Several multivariate analyses show that the issue of government waste indeed cross cuts the interests that have so far been identified as salient to the issue of social security finance. There are only weak relationships between perception of government waste and either age or income. The strongest correlates of the perception of government waste are the measures of economic insecurity and frustration that were discussed earlier in this essay. Looking at the results of the 1976 and 1978 Michigan surveys, those who expect to do worse in the coming year are 7 to 9 percent more inclined than those who expect to stay the same or do better to believe the government wastes a lot of tax money. Those who believe the government is doing a poor job fighting inflation are 12 percent more likely than those who do not to believe the charge of government waste. Combining these figures, a person who expects to do worse and who is frustrated with inflation (a rapidly growing cell) is about 20 percent more likely than the rest of the population to perceive government waste.

Recalling the earlier discussion, projected economic changes for the worse are more often characteristic of the older (although not necessarily poorer) members of society and so the aged are under one cross pressure to resent government spending. Frustration with inflation, at least in the last few years has been a "growth issue" for higher income Americans, Republicans, and Independents. Combining these social forces, the only members of the society who have not been under increased pressure to suspect government spending are young, low-income Democrats. This is a segment of the population that favors most proposals for progressive social security refinancing. But there are other segments who favor these proposals as well. The politics of inflation and economic insecurity cross cut these other groups, however, to make them more suspicious of taxation and programs for government spending.

UNDUE TAX BURDEN

Americans are suspicious of the amount of social value achieved for their tax dollars. The prevalent view of government tax waste currently justifies, for many people, the conclusion that they pay too much to the Federal Government in taxes. However, the issue of tax waste is separate from the high level of resentment of the financial burden of taxes. In the 1950's the level of tax resentment was as high or possible higher than it is now, but the percent believing that the government wasted a lot of tax money was much lower than now (Smith, Taylor, and Mathiowetz, 1980).

Since 1974 the Gallup poll has asked the question: "Do you consider the amount of Federal income tax which you have to pay as too high, about right, or too low?" Table 7 shows the percent saying their taxes are too high. Since 1947, it has almost always been the case that a majority believes their tax burden is too great. The current peak represents a tide against the Federal income tax, however, the current level of dissatisfaction is about the same as in the early to middle 1950's.

TABLE 7.—*Trend in the percent who believe they "pay too much in Federal income taxes"*

Year:	*Percent*
1947	53
1947	61
1948	57
1949	42
1950	53
1951	52
1952	71
1953	60
1956	55
1957	61
1959	51
1961	46
1962	47
1962	47
1963	52
1964	56
1966	52
1967	58
1969	69
1973	64
1976	64
1977	65

Sources: 1947–73 Gallup polls: 1976, 1977 general social surveys conducted by the National Opinion Research Center.

The problem with interpreting this question is that it is too broad to allow us to draw firm conclusions about public dissatisfaction with specific tax policies and with specific government programs. At the beginning of this section we noted Sundquist's observation that the American public generally endorses the principles of a balanced budget and reductions in Federal spending, but that these issues are often cross cut in ways that lead the public to favor an expanded Federal role. Table 7 shows that we can add another general principle to Sundquist's list: the public believes it is taxed too heavily. The question is when and how is this issue cross cut so that certain periods of American history, such as the early 1960's, show less resentment of the Federal tax burden?

The data to answer this question are quite spotty. A multivariate analysis using the most recent survey replication shows that the higher one's family income the more likely one is to believe that one's tax burden is too great. The difference between the top and bottom income quartile is about 15 percent for this item. Controlling for income, those over 65 years are about 10 percent less likely to believe their tax burden is too great. One conclusion to be drawn is that the aged and the poor, who are more dependent on income redistribution, are less likely to believe their tax burden is too great. Among the low income aged, however, the level of resentment of the tax burden is still 42 percent. The cross classification of age, income, and the percent believing their tax burden is too great is shown in table 8.

TABLE 8.—PROPORTION WHO BELIEVE THEIR FEDERAL INCOME TAX IS TOO HIGH, BY AGE AND INCOME, 1977

Age	Income in 1977	Proportion
18–35	0–$10,000	0.590
	$10,000–15,000	.652
	15,000–22,500	.697
	22,500+	.773
Average		.663
36–54	0–10,000	.625
	10,000–15,000	.698
	15,000–22,500	.743
	22,500+	.748
Average		.708
55–64	0–15,000	.701
	15,000+	.696
Average		.699
65+	0–10,000	.420
	10,000+	.637
Average		.471

Source: 1977 NORC general social survey.

The multivariate analysis shows that the tax burden question, as it is stated, does not produce a greater amount of measured resentment among Republicans than among Democrats. Generally speaking this is true for other tax questions as well. The general rhetoric of tax resentment is as likely to be endorsed by Democrats as by Republicans. However, the specific proposals that have entered the political arena, proposition 13 for instance, are Republican issues. As we shall see, such proposals are more likely to be known to and supported by Republicans.

One of the strongest correlates of tax resentment today is, in fact, the perception of the amount of tax waste by the Federal Government. Controlling for the other factors that have been mentioned, the difference in tax resentment between those who do and do not believe the government wastes a great deal of money is 20 percent.

In their 1979 annual report, the trustees of the social security system cautioned against an unquestioning attitude toward the simulation models that were used to project the actuarial status of the insurance funds:

"Although the assumptions may appear to be reasonable, based on current understanding, they may in some instances imply conditions so different from the current situation that it is important to recognize their overall socioeconomic implications and not just their effect on the OASDI program. For example, because the demographic assumptions imply a future composition of the U.S. population which is significantly different from the present composition, many of the Nation's social and economic arrangements may change substantially." (Page 24.)

The trustee's report mainly discusses the threats to the validity of the financial projections that are posed by unforseen demographic changes. It is also important to consider the likelihood that the social and economic arrangements of the society will change because of changes in values or public willingness to accept certain features (or consequences) of the social security system.

We have seen, in tables 6 and 7, large shifts in public opinion regarding taxation policy. It is unusual for public opinion to change as rapidly as it has on these issues. One reasonable interpretation is that the trend in public opinion regarding taxation is part of a political cycle and that the dissatisfaction with tax policy will subside when the economy seems more hopeful and when the Federal government is seen as less wasteful. It is not really possible to say whether this interpretation is correct. The discussion of the age difference in tax resentment argues that older people were less resentful because they receive great benefits from the progressive aspects of Federal income tax. This argument minimizes the possibility that there is a generational effect—that people who are younger now are more resentful and will continue to be as they age and approach retirement themselves. If, in fact, there is a generational difference then there is a stronger basis for arguing that the current situation is more than a peak in a political cycle of economic insecurity and tax resentment.

There is nowhere near enough data available to make a strong argument for a cohort effect, however, there are some indications that there is a generational difference in tax resentment and that this difference bodes for more hostility to Federal taxation, and possibly social security, in the future. The tax resentment question in the Michigan survey shows a very strong relation to age. Those 65 and over are 21 percent less likely to be resentful than those 35 years of age and less. Unlike the Gallup question, the intermediate age groups show an intermediate level of tax resentment. The 21 percent age difference is adjusted for the measures of economic insecurity that have been considered in this essay (income, next year's hopes, inflation frustration) although it may be the case that more fine-grained measures would explain more of the difference. If the age difference in tax resentment cannot be explained by economic differences, then it is likely to persist even when economic conditions become more stable. As time goes on, then, the proportion of the population believing Federal taxes are too high will continue to rise because of cohort succession.

A third measure also asked on the 1978 Michigan survey, lends a little more support to the argument that there is a cohort difference in tax resentment. Respondents were asked to agree or disagree with the statement: "I feel that most people who have a higher income than I do manage to get away with paying less than their fair share of taxes." Sixty-nine percent agreed with this question, indicating a wide spread feeling of inequity. However, the resentment was lower in the youngest age group. Controlling for political party and the economic factors, those 35 years of age and less were 6–7 percent less likely than the rest of the population to believe that taxes are inequitable. Granted, believing taxes are equitable is not the same as being cheerful about paying them. However, the age differences on the tax questions are such that today's young adults are more resentful of the Federal income tax and less likely to go along with the argument that the wealthy ought to be taxed more heavily. This generational difference will eventually pose problems for supporters of Federal spending, however, there may be cross cutting generational differences that will result in less direct pressures on the social security system. Section 5 of this essay examines the possibilities that there are generational differences in personal sensitivity to the problems of the aged.

As a footnote to the discussion of issues cross cutting taxation politics, the strongest correlate of the belief that the wealthy get away with paying less than their fair share is whether or not the respondent believes the government wastes a lot of money. Controlling for the social and economic factors described in this section, those who believe the government is wasteful are 14 percent more likely to believe the wealthy pay less. These people are also 20 percent more likely to believe Federal taxes are too high. Thus, it should in principle be dangerous for either political party to stir up tax resentment—the result could either be a decline in tax rates for everyone or an increase in tax rates for the wealthy. In fact the Republican party in California was successful in capitalizing on tax resentment in the summer of 1978 to achieve the passage of proposition 13, which combined the best of both worlds—a reduction in taxes for the wealthy. We now turn to an analysis of the response to that campaign.

TAX ABATEMENT

Proposition 13 succeeded because it appealed to the wealthy on economic grounds and to the poor on ideological grounds. We noted at the beginning of this section that 47 percent of those interviewed in the 1978 Michigan survey had heard of and favored proposition 13. The actual distribution of opinion in this country is even more sharply in favor of proopsition 13 than this figure suggests because only 20 percent had heard of and opposed the measure. Remarkably, the other 33 percent had not heard of proposition 13 or did not have an opinion on it by November 1978.

A great deal of the support for proposition 13 is explained by economic interest. Homeowners and high-income people stand to gain the most from the passage of a bill like proposition 13. Table 9 shows, at each income level, the proposition of homeowners and renters supporting proposition 13 in November 1978. High-income homeowners are the people most in favor of the legislation. Lower income homeowners are about 10 percent less likely to support the proposal, but this is mainly because they are less likely to have heard of the measure. Turning to the second column, high-income renters are about as likely to support a measure like proposition 13 as are high-income homeowners. In fact, the level of support for proposition 13 is relatively low for only one group: low-income renters.

TABLE 9.—PROPORTION WHO KNOW OF AND FAVOR PROPOSITION 13, BY INCOME AND WHETHER THE RESPONDENT OWNS OR RENTS HIS PLACE OF RESIDENCE

Income in 1978	Proportion who know and favor	
	Owners	Renters
0 to $11,000	0.428	0.319
$11,000 to $17,000	.512	.484
$17,000 to $25,000	.535	.462
$25,000 and over	.538	.515

Source: 1978 Michigan election survey.

Table 10 analyzes support for proposition 13 among owners and renters in different age groups. For homeowners there is little age difference in the (relatively high) level of support. Renters of all ages are less enthusiastic than homeowners about the measure, but among renters there is a large age difference. Only 22 percent of renters who are 65 or older are in favor of proposition 13 whereas 42 percent of those aged 18–35 are in favor.

TABLE 10.—PROPORTION WHO KNOW OF AND FAVOR PROPOSITION 13, BY AGE AND WHETHER THE RESPONDENT OWNS OR RENTS HIS PLACE OF RESIDENCE

Age	Proportion who know and favor	
	Owners	Renters
18 to 35	0.492	0.420
36 to 54	.518	.377
55 to 64	.533	.320
65 and over	.484	.221

Source: 1978 Michigan election survey.

The general pattern of differences by income and home ownership is not surprising. Economic interests prevail. What needs to be explained is why support for proposition 13 is high (relatively speaking), in groups whose economic interests are not served by the measure (young renters, middle-income renters). Much of the answer lies in the fact that many of these people believe that proposition 13 is a way to control inflation and is a way to keep the government from wasting tax money. A multivariate analysis found that in every economic category those who thought the government was doing a poor job fighting inflation were on average 11 percent more likely than the rest to support proposition 13. The strongest correlate of support, however, is the resentment. Those who think the government wastes a lot of tax money are 19 percent more likely that the rest to support proposition 13. It is quite safe to say that without these cross cutting concerns the level of support for proposition 13 would have been much lower and the economic interests in the issue would have been much more apparent to the voter.

The combination of cross cutting issues and party loyalties (Republicans are, controlling everything else, 11 percent more in favor than Democrats) produces a surprisingly high level of support for proposition 13 in all age and income groups, as is shown in table 11. It is only at the lowest income levels within each age groups where proposition 13 receives less than majority support. But even in these groups it is not the case that a majority opposes proposition 13. Rather, it is typically the case that a majority have not heard of or do not have an opinion on the issue. (These proportions are also shown in table 11.)

TABLE 11.—SUPPORT FOR PROPOSITION 13 BY AGE AND INCOME, 1978

Age	Income in 1978	Proportion who know of and favor	Proportion who do not know of or have no opinion
18 to 35	0–$11,000	0.318	0.498
	$11,000–17,000	.528	.264
	17,000–25,000	.519	.257
	25,000 +	.542	.157
Average		.463	.316
36 to 54	0–11,000	.400	.483
	11,000–17,000	.485	.331
	17,000–25,000	.514	.200
	25,000 +	.515	.215
Average		.483	.297
35 to 64	0–17,000	.432	.412
	17,000 +	.604	.149
Average		.500	.309
65 and over	0–11,000	.391	.486
	11,000 +	.514	.297
Average		.427	.431

Source: 1978 Michigan election survey.

The full picture of proposition 13 is not that a near majority (47 percent) supports the measure but that economic self-interests, frustrations with inflation, tax resentment, and lack of information combine to keep the level of opposition quite low in virtually every identifiable social group.

The politics of proposition 13 may not have much to tell us about the future of social security finance. Property taxes are State taxes, not Federal taxes. The economic issues were not clearly presented nor were they well understood by the voters. The entitlements of retired workers were not seen as one of the stakes in the political conflict. On the other hand, the cross cutting issues that kept opposition to proposition 13 at a low level are also clearly apparent in national debates over tax policy. Section 6 of this essay explores more carefully the links between tax resentment and social security politics.

5. Sensitivity to the Aged and Social Security Finance

So far the trends bearing on the future of social security finance have not been positive. Economic frustration and tax resentment are at an all-time high. These issues can be converted into support for middle-class proposals for tax abatement. Furthermore, there is some suggestion that young adults today have been affected by the times and have learned slightly more hostile attitudes towards taxation and government spending than those who are members of their parent's or grandparent's generations.

There is virtually no evidence to tell us whether the public's sensitivity to the problems of the aged has changed in recent years. One fairly weak measure shows that in 1969, 52 percent reported they "often feel bad over the way older people have been neglected," compared to 35 percent in 1965 (Harris, 1969).

The purpose of this brief section is to show that working to raise the level of sensitivity to the problems of the aged will do little to significantly ease the strains between economic frustration, tax resentment and potential threats to the social security system. The reason is that in the younger age groups, those who are most responsive to the problems of the aged are also least likely to play a significant role in any upcoming conflict over social security finance.

The 1976 Michigan election survey asked respondents whether they felt close to older people. Fifty-one percent said they did. Table 12 shows the question wording and the percent feeling close to older people for different income categories within each age group. For those under age 55 there are very strong income differences in the percent feeling close to the aged. In the younger age groups poorer people are much more likely to feel close to the aged.

TABLE 12.—PROPORTION WHO FEEL CLOSE TO THE ELDERLY, BY AGE AND INCOME, 1976

Age	Income in 1976	Proportion who feel close
18 to 35	0–$8,000	0.429
	$8,000–13,000	.404
	13,000–20,000	.353
	20,000 +	.291
Average		.375
36 to 54	0–8,000	.610
	8,000–13,000	.517
	13,000–20,000	.509
	20,000 +	.347
Average		.477
55 to 64	0–13,000	.651
	13,000 +	.603
Average		.631
65 and over	0–8,000	.773
	8,000 +	.716
Average		.758

Source: 1976 Michigan election survey.

"Closeness to older people" is a weak cross cutting issue in social security politics. The people who are most likely to support antiinflation measures (that happen to threaten the interests of the aged) are also least likely to feel close to the aged anyway.

The 1976 Michigan survey also asked people if they thought older people had too much influence in American politics, the right amount, or too little influence. When the issue of sensitivity to the aged is defined this way there is much more of a cross cutting effect. It is the young who are most likely to believe the aged should have more political influence (even though, relatively speaking, they are much less likely than their elders to feel close to older people). The question wording and the relation between age and the influence question, controlling for how close the respondent feels to older people, are shown in table 13. Not only is the age effect different for this question, but there is no relation to income.

TABLE 13.—PROPORTION WHO BELIEVE THE AGED HAVE TOO LITTLE POLITICAL INFLUENCE, BY AGE AND WHETHER OR NOT THE RESPONDENT FEELS CLOSE TO THE ELDERLY, 1976

Age	Proportion "too little influence"		
	Those who feel close	Those who do not feel close	Total
18 to 35	0.828	0.725	0.759
36 to 54	.724	.614	.659
55 to 64	.732	.580	.671
65 and over	.558	.502	.531

Source: 1976 Michigan election survey.

The perceived need for more political power for the elderly does cross cut social security politics. The age difference (combined with the lack of an income difference) will push for a greater role for the aged in future political debates.

This suggests that an appreciation for the political needs of the elderly also cross cuts opinions on social security finance in the younger age groups and will tend to mitigate some of the economic pressure separating the generations.

6. National Medical Insurance

The 1979 Advisory Council on Social Security explicitly recommended a form of national medical insurance for the aged, funded from general revenues, as a means of balancing the social security budget. Even if this recommendation had not been made the issue of national medical insurance would be relevant to an understanding of social security politics. National medical insurance and social security politics have been linked since the 1930's. At the outset of the social security program the decision was made by the President to hold back his proposals for national medical insurance because it was anticipated that opposition to that part might be strong enough to endanger the entire program. The New Deal proposal for national medical insurance was finally advanced by President Truman in the late 1940's, as part of the Fair Deal.

The division of opinion on Truman's proposal for national medical insurance became part of the American political landscape. The sophisticated and well-funded lobbying arm of the American Medical Association was capable of advancing the perceived economic interests of the medical establishment and at the same time generating enough cross cutting ideological and emotional issues so that support for national medical insurance actually dropped slightly among those whom the program was meant to serve. Marmor (1970) analyzes the emotional and political conflicts surrounding the general issue of national medical insurance in American politics:

"The Federal Government's role in the financing of personal health services is one of the small class of public issues which can be counted on to activate deep, emotional and bitter cleavages between what political commentators call "liberal" and "conservative" pressure groups." (Page 23.)

"Ignoring the stipulations that doctors would remain free to choose their own patients, and patients to choose their own doctors, the AMA campaign [against Truman's proposal] pictured an impersonal medical world under the national health plan in which patients and doctors were forced unwillingly upon each other. . . . Thus the stage was set in early 1951 for what has come to be called "medicare" proposals." (Pages 13–14.)

"The AMA has rallied groups against medicare behind the slogans of freedom of choice, individualism, distaste for bureaucracy and hatred of the welfare state, collectivism and higher taxes." (Page 26.)

Distaste for Federal bureaucracy and taxes are, if anything, more politically salient now than at the time of the highest level of AMA activity. The purpose of this section of the essay is to explore the linkage between these cross cutting issues and support for the kind of national medical insurance program that may become part of the overall package for social security refinance. Once again, the amount of data available is not suited to the complexity of the task. The Michigan election surveys in 1970, 1976, and 1978 asked respondents the following question:

"There is much concern about the rapid rise in medical and hospital costs. Some feel there should be a government insurance plan which would cover all medical and hospital expenses. Others feel that medical expenses should be paid by individuals, and through private insurance like Blue Cross. Where would you place yourself on this scale, or haven't you thought much about this? [The respondent was shown a card with a seven-point scale. Category 1 was labeled "Government insurance plan" and category seven was labeled "private insurance plans."]"

The level of support for national medical insurance (defined as those choosing categories 1–3 of the response scale) has not changed in the last decade. In 1970 the level of support was 39 percent, declining to 37 percent in 1976 and declining again to 35 percent in 1978. The level of indifference and/or opposition to national medical insurance also declines during this period—from 47 percent in 1970 to 45 percent in 1976 to 44 percent in 1978. The most significant change is in the percent who had not thought enough about the issue or were not sure of their response. Fourteen percent chose this alternative in 1970, 17 percent in 1976, and 21 percent in 1978. A rise in the percent "don't knows" is usually a leading indicator of change in public opinion. From our vantage point, however, there is not a firm basis for predicting the direction and magnitude of change. This section will examine the data from the two most recent Michigan surveys. The analysis of issues cross cutting support for national medical insurance is organized according to the issues in each of the earlier sections of this essay: class politics; inflation politics; tax politics; and, sensitivity to the problems of the aged.

CLASS POLITICS

National medical insurance is still an issue that provokes extremely strong political party differences in public opinion. The difference between Democrats and Republican in support, after adjusting for income and differences on the other issues considered in this essay, is about 18 percent. Within each category of political party identification, the logic of national medical insurance is more appealing to those with a low family income than those with a high family income. The percent at each income level supporting national medical insurance within each category of political party identification is shown in table 14.

TABLE 14.—PROPORTION FAVORING NATIONAL MEDICAL INSURANCE, BY PARTY AND INCOME, 1976-78

Party identification and income category	Proportion favoring
Democrat:	
Bottom	0.495
Second	.456
Third	.362
Top	.361
Average	.437
Independent:	
Bottom	.460
Second	.354
Third	.342
Top	.311
Average	.370
Republican:	
Bottom	.302
Second	.244
Third	.255
Top	.188
Average	.247

Note: Income categories are different for 1976 and 1978 data, see previous tables for the categories used for each year

Source: Combined 1976 and 1978 Michigan election surveys.

Just as with proposition 13, there are class differences in the percent who do not know enough about the issue to have an opinion. The main difference is that the overall level of ignorance is lower for national medical insurance (this may be partly affected by differences in question format). The percent who do not know about national medical insurance follows the same pattern as with proposition 13—people who are older, lower in family income, and/or Democrat know less about the issue. Compared to proposition 13, the differences in information are less extreme. The advocates of national medical insurance have done a more effective job educating their constituency than the opponents of proposition 13 did with theirs.

The strong differences by income and political party identification in support for national insurance reflect the traditional liberal versus conservative division that Marmor describes as characteristic of issues in medical politics. However, the level of endorsement of national medical insurance is lower among those who historically take the liberal position than we might expect given the history of other issues in redistributive politics. (A similar question on the role of the Federal Government as an employer of last resort, for instance, receives almost twice as much support among Democrats than does the question about national medical insurance.) The success of the lobby against national medical insurance can be measured by the effect of issues that cross cut and reduce the level of support for the government program. It also seems quite likely that the issues cross cutting support for national medical insurance will pose problems for other programs for expanding the social security system, particularly when these proposals are redistributive in nature and/or involve medical care financing. We begin the analysis of cross cutting issues by examining the effect of inflation on public opinion toward national medical insurance.

INFLATION, POLITICS, AND NATIONAL MEDICAL INSURANCE

At one level we can say that the inflation between November 1976 and November 1978 did not effect public opinion on national medical insurance. The percent favoring national medical insurance did not change significantly during this period, even though the rate of inflation went up. This does not mean that inflation politics will not eventualy become an important element in the debate over national medical insurance. Between 1976 and 1978, there was, in fact, a good deal of realignment on the issue of national health insurance. Furthermore, public fear and frustration over inflation played a major part in the change.

Table 15 shows the level of support for national medical insurance within each age group and by income within each age group for the 1976 and 1978 surveys. We first note that in 1976 there was little variation by age in support of the program. Over the next 2 years this changed. By 1978 older people—those 55 years of age and over—were substantially more likely to support national medical insurance. The greatest increases in support were among those 65 years of age and older and among the low income members of the 55 to 64 age group. Although inflation per se was not the issue, the increase in support for national medical insurance was concentrated in those segments of the popualtion with the greatest economic vulnerability to increasing medical costs and where there is the greatest certainty that medical costs will be a drain on the household budget.

TABLE 15.—PROPORTION IN FAVOR OF NATIONAL MEDICAL INSURANCE, BY AGE AND INCOME, 1976 AND 1978

Age	Income in 1976	Proportion favoring	Income in 1978	Proportion favoring	Change 1976 to 1978 (percent)
18 to 35	0–$8,000	0.461	0–$11,000	0.437	−2
	$8,000–13,000	.353	$11,000–17,000	.365	1
	13,000–20,000	.312	17,000–25,000	.288	−2
	20,000+	.343	25,000+	.344	0
Average		.368		.364	0
36 to 54	0–8,000	.519	0–11,000	.435	−8
	8,000–13,000	.387	11,000–17,000	.390	0
	13,000–20,000	.358	17,000–25,000	.396	4
	20,000+	.258	25,000+	.275	2
Average		.354		.366	1
55 to 64	0–13,000	.363	0–17,000	.478	12
	13,000+	.253	17,000+	.317	6
Average		.315		.414	10
65 and over	0–8,000	.386	0–11,000	.497	11
	8,000+	.273	11,000+	.370	10
Average		.356		.473	12

Source: 1976 and 1978 Michigan election surveys.

Frustration with inflation and pessimism about one's economic future both cause higher levels of support for national health insurance. Since both of these measures of reaction to inflation increased between 1976 and 1978, we would expect to see an accompanying increase rather than a slight decrease in the level of support for national medical insurance. The full explanation for the relation between these variables is that, with respect to national medical insurance, older people and younger people respond differently to inflation. Older people (those 55 years of age and over) see national medical insurance as a positive means of coping with inflation. Those who think that the government is doing a good job coping with inflation believe that the government's progress ought to be continued and therefore advocate the extension of national medical insurance. Table 16 shows that for those 55 years of age and older, the increases in support for national medical insurance took place only among those who believed the government was doing a good job with inflation.

TABLE 16.—PROPORTION IN FAVOR OF NATIONAL MEDICAL INSURANCE, BY AGE AND RESPONDENT'S OPINION OF WHETHER THE GOVERNMENT IS DOING A GOOD, FAIR, OR POOR JOB CONTROLLING INFLATION, 1976 AND 1978

Age and opinion on inflation	Proportion favoring insurance 1976	1978	Change 1976 to 1978 (percent)
18 to 35:			
Good, fair	0.332	0.327	−1
Poor	.463	.397	−7
36 to 54:			
Good, fair	.306	.334	3
Poor	.485	.382	−10
55 to 64:			
Good, fair	.270	.394	12
Poor	.392	.369	−2
65 and over:			
Good, fair	.321	.443	12
Poor	.463	.477	1

Source: 1976 and 1978 Michigan election surveys.

Younger adults (those under 55 years of age) see a different relationship between inflation and national medical insurance. Those who are most economically threatened and/or who are most dissatisfied with the government's policy on inflation are likely to abandon national medical insurance as a social goal. Table 15 shows that among younger adults the main change in attitude was increased opposition to national health insurance, but this took place only among those who were frustrated with the government's policies on inflation.

The increased support for national medical insurance among the aged who see it as a means for coping with inflation is more than offset by the declining support for the program among the rapidly growing segment of the younger population who are frustrated with inflation. The implication of these changes for class differences might not be immediately obvious, but a multivariate analysis shows that income, party and age differences in support for national medical insurance all increased between 1976 and 1978. The lines of class conflict on national medical insurance are becoming more clearly drawn, with Democrats, older people, and the poor becoming isolated as the proponents of a position that is not popular with the rest of the society.

TAX POLITICS

Tax resentment and national medical insurance are linked at the operational level. Many of the suggestions made by those who resent Federal taxes would result in the reduced availability of financial payments for social and medical insurance. In spite of this indirect connection, tax resentment and opposition to national medical insurance are not ideologically linked in the mind of the average American. For most of the measures considered in this essay, those who favor a reduction in the level of Federal taxation are no more likely than those holding a more favorable view to oppose national medical insurance. There are two exceptions to this rule. Both exceptions point to fascinating age differences in tax politics.

The first exception to the rule is that older people who favor tax reductions (proposition 13 and the proposal for a 33 percent reduction in the Federal tax) see this as a way of increasing the amount of money they have to spend for medical insurance. Among those age 65 and over, 42 percent who oppose proposition 13 are in favor of national medical insurance. Among those in this age group who *favor* proposition 13, 55 percent also favor national medical insurance. The other age categories show no similar connection between tax politics and national medical insurance. This same pattern occurs for the other tax cut proposal: among those 65 years of age and older, those who favor the tax cut are 9 percent more likely than the rest to favor national medical insurance; the issues are not linked in the younger groups. The aged tend to support proposals for tax reduction because they see them as a way of saving money, possibly to meet medical needs.

The second significant age difference involves the relation between the perception of government waste and support for national medical insurance. For older people wise government spending means support for programs like national medical insurance. Among those 65 and over the greatest level of support for national medical insurance is among those who think the government wastes little tax money. For younger people, a prudent government spending policy is one that does not support national medical insurance. Among those 35 years of age and younger the greatest level of opposition to national medical insurance is among those who think the government spends wisely.

SENSITIVITY TO THE AGED

Personal awareness of and sensitivity to the problems of the aged is an important predictor of support for national medical insurance among older Americans but not among younger Americans. Table 17 shows that the difference in support for national medical insurance between those who feel close to the elderly and those who do not increases with each successive age category. Table 18 shows the same pattern for the relation between support for national medical insurance and whether the respondent believes the aged have too much, the right amount, or too little influence in American politics. The explanation of the pattern for either measure of sensitivity, is that support for national medical insurance falls off among older respondents who are not personally concerned about the problems of the aged. Another way of looking at tables 17 and 18 is to observe that among those who are not concerned with the aged, support for national health insurance is greater for younger people than for their elders. The argument that older people do not need more medical insurance is apparently most successful in convincing some older people to reject such proposals.

TABLE 17.—PROPORTION FAVORING NATIONAL MEDICAL INSURANCE, BY AGE AND WHETHER OR NOT THE RESPONDENT FEELS CLOSE TO OLDER PEOPLE, 1976

Age	Proportion favoring insurance: Those who feel close	Proportion favoring insurance: Those who do not feel close
18 to 35	0.372	0.367
36 to 54	.391	.308
55 to 64	.363	.239
65 and over	.396	.236

Source: 1976 Michigan election survey.

TABLE 18.—PROPORTION FAVORING NATIONAL MEDICAL INSURANCE, BY AGE AND WHETHER THE RESPONDENT THINKS THE ELDERLY HAVE TOO MUCH, THE RIGHT AMOUNT OR TOO LITTLE INFLUENCE IN NATIONAL POLITICS, 1976

Age	Proportion favoring insurance: Old have too little influence	Proportion favoring insurance: Old have enough or too much influence
18 to 35	0.376	0.314
36 to 54	.385	.264
55 to 64	.349	.345
65 and over	.420	.261

Source: 1976 Michigan election survey.

It is difficult to use these findings to make projections about what the relationship between concern for the elderly and support for national medical insurance will be in the future. It appears that the issues are becoming disassociated in the public mind. We observed earlier that younger generations are much more likely than their elders to believe the aged are lacking in political influence. However, this idea is not directly linked to support for national medical insurance. Rather, support for national, medical insurance is related to a different set of political demands in such a way that even young people who are not close to or sensitive to the political problems of the aged are, relatively speaking, at a quite high level of support for national medical insurance. The young, unlike their elders, have come of age in a society where their own medical needs must also be met by a comprehensive insurance program. Therefore, their support for national medical insurance is related more directly to their own self interest and less to the perceived needs of the elderly population.

What is the implication of this for social security refinance Most likely it is that the young will evaluate any program change in terms of their own needs and not in terms of what that program will do for the elderly. Although there is a great deal of support for the idea that the elderly should have their needs better represented in the political process (especially among the young, c.f. table 13), programs for social security refinance will not be evaluated on this criterion. Rather, the young will support or reject such programs on the basis of their own needs, objectives, and on the basis of the other factors discussed in this and in previous sections.

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