YOU MAY QUOTE 300 WORDS FOR RELEASE MONDAY A.M. MARCH 27.

ADVANCE PROOF
READER'S DIGEST

FOR CONFIDENTIAL USE ONLY

The Great Society's Wondrous "War" Budget

The Administration's shocking proposals for increased non-war spending challenge every citizen to call for a return to effective government and fiscal sanity

BY CHARLES STEVENSON

FIVE YEARS ago a 34-year-old California supermarket manager was looking forward to the day when he could earn more than $7000 for his family of four. Today he makes $8400, but his federal income tax is now $840. His Social Security taxes have nearly doubled, to $277. The tax on his home is up nearly 50 percent. The most insidious levy of all—inflation—has further cut his income. Result: his hard-earned $1400 pay raise has been slashed by $918, a loss of 63 cents on the dollar, and his family must live on an after-taxes real income of $6092.

Millions are even harder hit. A person who made $5000 in 1956 now requires nearly $6000 just to stay even; the $7500 family now must have almost $9000. In Arizona, a retired couple trying to get by on an inflation-ravaged pension find that their tax bite is bigger than ever. In

Texas, a senior is forced to leave college: "With taxes and inflation, the money I earned during the summer just won't cover the bills anymore."

Inflation has ballooned living costs at the highest rate of increase in nearly a decade. To buy a 1965 dollar's worth today takes $1.10 for milk, $1.08 for medical services, $1.06 for bread, $1.05 for restaurant meals.

"For God's sake, please, no more taxes," a constituent implores an Indiana Congressman. "We can't pay for the whole world."

New Squeeze. Despite all this, President Johnson wants Congress to squeeze another $5.5 billion a year out of already hard-pressed individuals and businesses, principally by adding six cents to every dollar they now pay in federal income taxes. And to pull in another $4.1 billion, he seeks additional Social Security levies which would eventually extract up to $1252 per employe.

This at a time when surveys reveal that householder confidence in the economy is the lowest since the 1958 recession. Even to propose more taxes in such a period, says Dr. Paul McCracken, University of Michigan economist, would be an additional "depressant, a restraint on the economy." Asserts Beryl Sprinkel, economist and vice president of Chicago's Harris Trust and Savings Bank: "We're playing with dynamite to propose a tax increase." And, the most frightening statement of all, from William F. Butler, vice president-economist of the Chase Manhattan Bank: "We could well find ourselves with both a recession and inflation at once." Small wonder that polls by the Opinion Research Corp. show that 71 percent of all Americans call for a cut in federal spending rather than face the prospect of any increase in taxes.

Mr. Johnson says the income-tax hike will give our "fighting men in Vietnam the help they need." If that justification were sound, no American could oppose it. However, the President's Budget for the 1968 fiscal year to begin July 1 shows big domestic-spending increases which will more than drain off all this "war" cash.

He explains that the additional payroll taxes are needed to pay for higher Social Security benefits in behalf of "an adequate income, a decent home and a meaningful retirement for each senior citizen."* Yet much of these additional Social Security taxes would go to bail out federal agencies for their lending operations, which cover everything from FHA mortgages to student loans. Incredibly, these sums show up in the President's Budget as *reductions* in spending!

"The President's budgetary policies contain gimmicks which conceal the true costs of the Great Society

* Paradoxically, the President's proposed income-tax "reforms" would punish many older victims of the Administration's inflation, by further curtailing their existing exemptions and deductions for age. He would also tax their now-exempt Social Security benefits.

and make his deficits look smaller," observes Sen. John J. Williams, of Delaware. Indeed, Senate Finance Committee experts have determined that, except for bookkeeping trickery, the Budget would disclose a planned deficit of $14.419 billion for fiscal 1968 even with tax increases —$18.869 billion without.

Read as far as page 413 of the Budget and you discover that the programmed Gross Expenditures of Government Administered Funds for the next fiscal year will amount to $210.222 billion. You also find that whereas President Johnson intends to spend $5.5 billion more for defense, including the Vietnam war, he simultaneously plans that outlays for civilian activities shall soar $27.084 billion higher than in fiscal 1966. This increase alone is about double what the cost of running the entire government was in the top year of the New Deal. There has been nothing like it in history.

More Money for DHUD. "I have reviewed these programs carefully," President Johnson reassured Congress. "Waste and nonessentials have been cut out. Reductions or postponements have been made wherever possible."

As these words echoed through the Capitol, the Department of Housing and Urban Development (DHUD), to take only one example, was announcing grants by the wholesale. They included funds to "beautify" Berkeley, Calif., with a municipal putting green, new tennis courts and a refurbished rose garden; to landscape the city hall at Overland Park, Kan.; to bestow a decorative fountain on Kingsport, Tenn.; and to construct a "two-acre lagoon" at El Centro, Calif. And why not? The President had tucked away $127 million in his Budget, nearly doubling the funds now available to DHUD for this category of unconscionable wartime spending.

Vulnerable Areas. "Nonsense," says Rep. Tom Curtis, of Missouri, ranking Republican on the Joint Economic Committee, to cynics who contend that Congress cannot cut the Budget. "If the public will give us the same support that the President's vested interests exert, we can carve away well over what $5.5 billion of new 'war' taxes would raise without doing a bit of damage." He and others agree that the following are just a few of the vulnerable areas:

• *Farm Fat.* The ever expanding Agriculture Department has become so thoroughly unpopular that a *Farm Journal* poll indicates that only one in ten of the nation's farmers now supports its programs. And the American Farm Bureau Federation, representing the vast majority of organized farmers, has demanded an end to "the whole sorry mess of government farm controls, direct subsidy payments and price manipulations." Nevertheless, Secretary of Agriculture Orville Freeman's budget has been hiked to $6.255 billion—a $296-million increase that accompanies, ironically, a sharp decline in the nation's farm population—and a 1400 increase in the department's employes.

The President claims that the Commodity Credit Corp., the agency supposed to "stabilize, support and protect" farm income, will cost taxpayers $3.626 billion in fiscal 1968. But, buried in the Budget's 1316-page appendix are figures showing that the CCC will end the year with an accumulated deficit of $9.837 billion—an increase of more than $1.3 billion over fiscal 1967.

• *Educational Gadgetry*. The Great Society asks another $5.2 billion for education, a $622-million jump. The biggest single expense is for the new Title I elementary- and secondary- school program, which President Johnson says is bringing "the full benefits of education to children of low-income families."

Yet all across the country one prosperous community after another has been allocated federal tax funds appropriated in the name of poor children. Even high-income Grosse Pointe, Mich., received $117,500. By Washington's figuring, Beverly Hills, Calif., merited $82,875, but school officials turned down the money. They could locate only eight children from six poor families.

Evidence mounts that the entire school-aid apparatus is so choked with new money from Washington that shockingly few real gains result. Recently a University of Chicago researcher found most big money providing "just gadgetry." A White House advisory group described projects as "piecemeal, fragmented efforts."

• *Cities and Housing Extravagance*. President Johnson's urban programs are "outmoded, inefficient and directionless," says Sen. Abraham Ribicoff (D., Conn.), chairman of the Senate Subcommittee on Executive Reorganization and an original enthusiast for the legislation. Moreover, DHUD, which administers 60 programs, frequently overlapping those of other agencies, has $16.571 billion left from prior years. Yet into this sieve President Johnson wants to pour $3 billion more, half again as much as it is getting in the current fiscal year.

Nearly two billion of this new money would go to the scandal-ridden urban-renewal and housing program, which was originally aimed at building housing for low-income citizens but which has provided, among other things, a bird refuge on the Atlantic Coast; a rebuilt beach for a New Jersey resort town; recreational facilities with restaurant, promenade and marina for the Newport, R.I., high-society vacationland; plus a tract for an aerospace research center in Boston.

• *The Poverty Mess*. Office of Economic Opportunity (OEO) poverty warriors are ladling out $59,500 for a Spanish-language animated cartoon for slum-dwellers, one of 11 films costing $400,000. In Westchester County, N.Y., one of the nation's richest, 119 OEO undertakings cost $5,264,519. Rep. Edith Green (D., Ore.) finally wrung a begrudging admission out of officials that Job Corps costs had hit $9120 a year per trainee.

The poverty war clearly faces a crisis of competence. "I would rather have 50 to 100 more competent administrators for the war on poverty than another $100 million for it," said Secretary of Labor W. Willard Wirtz. Nevertheless, the President is demanding another $2 billion, a 30-percent boost, for this fiscal circus.

• *Swollen Bureaucracy*. Nothing is more blatantly swollen than the federal payroll. On December 2, 1965, after a press briefing at the LBJ ranch, the New York *Times* proclaimed: "President Backs a Cut in U.S. Jobs—Approves Plan to Retire 25,000." Yet seven months later 187,506 more new workers were on the rosters—an average of 1300 hired every working day. A new Executive Order proclaimed a freeze in midsummer 1965, but by the year's end 100,000 more bureaucrats were hired, at a cost of $800 million. Now the President's Budget says that another 40,400 will come aboard in strictly non-war agencies at still another $323,900,000 of cost to the taxpayers.

These are just samples, and no one knows better than Rep. Frank Bow, of Ohio, ranking Republican on the House Appropriations Committee. "Whatever they tell you," he says, "scratch beneath the surface of any agency, from foreign aid to space programs to HEW, and you'll find extravagance—and expenditures we can do without."

Shattering Awakening. Congress is now in a mood to take stock of federal spending because of a shattering awakening. People are realizing that the whole federal grant-in-aid welfare state is disorganized and calamitously uncontrolled. The system keeps 2,600,000 federal employes busy in 150 Washington bureaus and in some 400 regional offices, but the machinery is so stalled by overlapping and duplication that it can only sicken taxpayers who must pick up the tab. Sen. Robert Kennedy, of New York, says that untangling this thicket of aid programs is the most serious problem in the government today.

For example, programs for the disabled are scattered among 28 agencies, bureaus, divisions and commissions. Fifty-seven separate programs have been set up for vocational and job training, 35 for housing, more than 20 for transportation. A New York agency had to spend three months and $150,000 preparing an application for $200,000 in planning funds.

A potent warning is issued by Maine's Democratic liberal Sen. Edmund Muskie, a past supporter of many of these programs and now chairman of the Senate subcommittee that has probed furthest into this mess. "Merely piling up new federal programs on old ones and scattering more federal money in diverse directions are not going to help community development," he says.

Walter Lippmann, long a staunch supporter of federal assistance programs, now insists that a pause is desperately required. "The complex of welfare measures has become unmanageable," he says bluntly. "No one wishes to stand up and say he is opposed to schools, hospitals, aid to the poor and the like. But there is a wide revulsion against the expanding and heavy-handed role played by the federal government."

Says Sen. Charles Percy, of Illinois, "It's time we started solving problems instead of just throwing money at them." Senate Majority Leader Mike Mansfield agrees: "I would hope to see the beginning of a major re-examination of what we have done in legislation during the past few years."

At the Crossroads. The moment for decision is at hand. Great responsibility falls on the taxpaying public. Confides one House member: "I'm waiting to hear from constituents who really want to lower outlays as I do, especially for projects back home." But even as Congress seeks to take stock, lobbyists from special interests ranging from aerospace industries to the organized mayors of America are plugging for more appropriations. Skilled armies of budget boosters are urging their members to write to Washington. Right now the ultra-liberal Americans for Democratic Action is campaigning for additional billions for its pet domestic programs. All the while the Administration itself is turning on the heat, with Treasury Secretary Henry H. Fowler attacking Budget critics for having nothing to offer except the "time-tested cliché of cutting federal spending."

These and other pressures can quickly turn Congressional economy talk into mere lip service unless men and women across the land respond now and mobilize a massive demand for fiscal common sense, for getting their money's worth from government. If citizens do nothing, they will have only themselves to blame as ever larger tax levies and the hidden cost of inflation are sliced out of their pay checks to underwrite governmental failures like those discussed here. Or they can *act*, both thinking Republicans and Democrats, conservatives and liberals. They must act *now*. That means *you*, sitting down and writing to your Representative and Senators and to the House and Senate Appropriations Committees. It means discussing the subject with *your* neighbors, organizing, getting them to write, too. Nothing less than a deluge of individual, thoughtful letters can give our legislators the needed backing to insist upon more effective, frugal government.

House Appropriations Chairman George Mahon, of Texas, has laid the issue squarely on the line: "Congress is not going to practice restraint," he says, "unless the message comes through *loud* and *clear* from the people."

YOU MAY QUOTE 300 WORDS FOR RELEASE TUESDAY SEPTEMBER 26th P.M.

ADVANCE PROOF
READER'S DIGEST

FOR CONFIDENTIAL USE ONLY
DO NOT CIRCULATE

How Secure Is Your Social Security?

Recent disclosures are raising grave doubts as to how much—if anything—today's young taxpayer will get back when his time for retirement comes

By Charles Stevenson

Our Social Security insurance is in trouble.

Ever since 1937 Americans have been willingly kicking back an ever-increasing portion of their paychecks to the government, confident that these Social Security taxes, along with matching payments by their employers, were buying them insurance guaranteed to provide a floor of security in old age. Nevertheless, now, even as President Johnson pressures Congress to increase benefits still more, the curtain of government-controlled publicity which has shielded the program is coming apart and letting some grim facts show through.

"Social Security is facing a crisis; it is at the crossroads," warns Rep. John W. Byrnes of Wisconsin, ranking minority member of the House Ways and Means Committee.

"It has been seriously compromised," says a staff study of the Joint Economic Committee of Congress.

"The time has come for every American to ask, 'How secure is my Social Security?' and demand the truth," adds Rep. Tom Curtis (R., Mo.), one of the country's most astute students of the subject. "If we don't do something fundamental to reform the system, I'm afraid it's going to hit the rocks in another ten years."

Such alarming statements must seem preposterous to Americans whose knowledge of Social Security comes from government publicity. The official booklet, "Your Social Security," declares that all Social Security taxes *"go into special funds"*; that when earnings stop or are reduced because the worker retires, dies or becomes disabled, *"monthly cash benefits are paid from the funds"*; that nine out of ten working people *"are now building protection for themselves and their families under the Social Security program"*; that *"the amount will depend on your average earnings."* The Under Secretary of Health, Education and Welfare, Wilbur J. Cohen, an early architect of Social Security, additionally stresses that "individual rights to benefits are enforceable in the courts" and that "payment through a separate trust fund is essential to giving people a sense of security about the receipt of their benefits."

Such talk implies a genuine insurance setup with guaranteed payment—but there isn't any. "The Cost and Financing of Social Security," published by the scholarly Brookings Institution, refers to the "adoption of the term 'insurance' by the proponents of Social Security," as "a stroke of promotional genius which has capitalized on the good will of private insurance and, through the establishment of a reserve fund, has clothed itself with an aura of financial soundness."

By the record, the Social Security taxes which *you* pay for *your* protection go into the Treasury's general fund, and are used at once to pay *current* Social Security benefits and administrative expenses. The small percentage left over goes to finance foreign aid, the moon race or any other government activity, and the sum shows up in the so-called Social Security trust funds as government I.O.U.s which can be liquidated only by further government borrowing or another hike in taxation. If thus transformed into cash, these I.O.U.s—accumulated since 1937—would now total around $23 billion, theoretically enough to continue paying benefits for 14 months.

Actually, the Social Security Administration's cash income is so close to outgo, and what's left over so quickly converted into government I.O.U.s that the system is dependent on further government borrowing to provide cash. Indeed, Secretary of Treasury Henry H. Fowler testified last January that unless Congress at once raised the national-debt limit by $7 billion, the government could cover only half of the Social Security checks it was obligated to send out in early March—a month in which it needed $2 billion for 22,930,000 beneficiaries.

"Considered as an actuarial account, the Social Security Administration is bankrupt," declared Prof. James M. Buchanan, director of the Thomas Jefferson Center at the University of Virginia, and Dartmouth economics Prof. Colin D. Campbell in a recent *Wall Street Journal* article.

The Nestor Case. There is no room for even official denial. Despite all the reassuring statements which the government puts out for public consumption, here is its unpublicized policy as it was successfully argued before the Supreme Court in 1960 in the case of Ephram Nestor, an alien deported in 1956 whom the government didn't want to compensate.

"A belief has developed," went the argument, "that Title II benefits are paid as the result of a contractual obligation on the part of the U.S. government. This belief has been fostered to a considerable extent by statements of responsible officials of the Social Security Administration, [but] there is no contract. Heretofore these facts and their implications have not, for some reason, been conveyed to the public."

Consider that a moment. Then this too:

"The Old Age and Survivors Insurance program is in no sense a federally administered 'insurance program' under which each worker pays 'premiums' over the years and acquires at retirement an indefeasible right to receive for life a fixed monthly benefit. Social Security must be viewed as a welfare instrument to which legal concepts of 'insurance,' 'property,' 'vested rights,' 'annuities,' etc., can be applied only at the risk of serious distortion of language. We are dealing with a social instrument by which public action, involving compulsion [taxation], is invoked to deal with a social problem—the lack of basic economic security of large segments of our society . . ."

And this:

"The Social Security concept is of a program under which those with jobs are taxed chiefly to provide the funds for current benefits to aged beneficiaries and other eligible survivors. No beneficiary or prospective beneficiary acquires any interest in the fund itself—monthly benefit payments are voluntary payments to the recipient, property acquired by gift. There is no correlation between the taxes paid and the amount of benefits which may become payable. The benefits conferred may be redistributed or withdrawn at any time in the discretion of Congress."*

That doesn't jibe with the government's assurances that people who invest in Social Security are "building protection for themselves." It *did* start out to be such security insurance back in 1935, and it made sense to most Americans. The myth that this still is the system is officially perpetuated for one reason alone. Under the cover of the mythology, the government has been able to shift the skyrocketing expense of increasingly unpopular relief expenditures to the popular Social Security system—in a way not known or understood by the country's workers, and in a way that doesn't show up noticeably in the Administration's budget.

Squeeze on the Young. In addition, the government has blanketed literally millions of additional persons into the system—millions who by no stretch of the imagination have paid enough into it to compensate for their benefits. Some have

**Flemming (U.S.) v. Nestor*, 363 U.S. 603.

paid nothing at all. These beneficiaries include everybody 72 or older who doesn't get a check from another government source; contributing wage earners and their wives who elect to retire at 62; the younger disabled, along with their families; entitled divorced wives; 60-61-year-old widows; beneficiaries' children up to age 22 if still in school. These people may be either rich or eligible for relief. Nevertheless, most of their monthly Social Security benefits come out of the special tax that Americans have been led to believe is buying insurance just for themselves.*

As a result, the top $189 annual Social Security tax which was paid in to the government in behalf of a "covered" worker ten years ago has soared to $580.80 this year; and that tax is officially scheduled to climb to $745.80 in another 20 years. This last figure represents 11.3 percent of the first $6600 in wages that a man takes in!

Already there are young people protesting the squeeze. "With inflation and income taxes taking everything else, our family can't meet our mortgage payments if our Social Security contributions go any higher," a young man writes his Congressman. "All that makes them bearable now is knowing the government is saving our money for us."

Innocent young man! If his own government had been honest with him he would know that:

- Current Social Security recipients have paid in an average of only one-tenth the value of their annuities; the remaining 90 percent of their benefits is paid by the taxes levied on the payrolls of the younger workers.
- Because of this extra bill, Robert J. Myers, chief actuary of the Social Security Administration, explains, "The benefits that a new entrant gets are not equal in value, over the long run, to the contributions that he and his employer pay." Social Security Commissioner Robert M. Ball similarly admits that "young employes do not, in those terms, get their money's worth."

Thus the maximum tax put into the Treasury in behalf of a now 25-year-old worker (under current law) *for annuity payments alone* will total $19,392 during his working years, and for this—if Congress doesn't change its mind—the Social Security Administration says that he will be entitled to a "gratuity" of $168 a month at age 65 if single and $252 if married, with his elderly widow to get $138.60 if he dies first.

According to calculations worked up for the National Association of Life Underwriters, the same contributions schedule could buy the same worker a private insurance policy designed to pay $312 a month if he remained single and $263 if he married, with either survivor to continue receiving $175.83 a month until

*The only exceptions are the special payments to persons 72 or older not otherwise receiving a government check. These are subsidized out of general taxes.

death. Or if the young worker banked the amount of the $19,392 tax payments at four percent compound interest over his working years, he would end up with $47,074 at age 65—minus income taxes, of course—to spend as he saw fit, or collect interest on. And he could will the principal to his heirs.

• Nevertheless, whether Social Security can pay our friend back *anything at all* for what he put into it will depend entirely on the mood of the taxpayers of that later day. The unfunded outstanding obligations of the Social Security system —that is, the amount by which its promised benefits exceed what the "insured" persons are supposed to eventually pay toward meeting these costs—are $350 billion. That is a sum which exceeds the current national debt.

Can the government collect enough Social Security taxes to keep the program going indefinitely? Officially it anticipates taking in up to $37 billion in 1980, even if the law isn't changed. With anticipated changes in the law, collections may soar as high as $58 billion.

Today President Johnson is trying to force through Congress a scheme to bend what's left of legitimate Social Security purposes into a vast relief giveaway which would complicate the already excruciating problem of poverty among persons over 65. Even now these people are discouraged from augmenting their incomes. If they earn small sums at odd jobs, they must continue to pay Social Security taxes with no comparable increase in benefits. And if they contribute enough to the economy through their labor to take in more than $1500 a year, the Social Security Administration penalizes them; it withholds benefits to which they're otherwise entitled. The Administration's cure is to let those who insist on working earn a bare $180 more a year than the present law allows. Yet simultaneously it would increase Social Security benefits to both workers and *nonworkers* from 15 to 59 percent!

The Johnson program proposes to "take 1.4 million Americans out of poverty this year" partly by raising the federal income taxes of another 1,400,000 persons over 65 who have been able to save enough, somehow, so that with Social Security they have incomes of $6000 or more, and by shifting the expense of caring for some hundreds of thousands now on the relief rolls to Social Security. Then the country's wage earners will pay these people through their still higher Social Security taxes, and the Administration will be able to boast that prosperity is saving the cash that formerly went into state and federally financed public-assistance payments.

To finance this, the President would raise your Social Security taxes yet again—to an eventual $1252.80 squeeze on a single job. And this would be just the beginning. Chief actuary Myers estimates the unfunded "accrued liability" of the system would soar again, too—

this time to $417 billion. "It staggers my imagination," declared House Ways and Means Chairman Wilbur D. Mills when the payments pattern was unfolded by Under Secretary Cohen.

Time to Take Stock. No matter what temporary tinkering the House and Senate may do regarding the President's program, now or later, the basic question still remains: Just how much more can the economy afford? Will the young people now keeping the system afloat be willing to pay ever more out of their paychecks when they learn that they're scheduled to get back less than they contribute? If they are pinched now, how can they continue to take on an ever more expensive burden of the elderly? Won't they insist on caring for their children first?

Already, the Social Security take is beginning to encroach on funds needed to keep private pension plans afloat—plans which through invested reserves create new wealth rather than devour it. Already the Social Security taxes are so high that a Treasury memorandum warns "it is doubtful" that many professional people earning even $10,000 a year "can afford to devote appreciably more to their retirement." So how high can these taxes go without seriously undermining the economy?

What if the government *can't* squeeze out the still higher taxes it needs from tomorrow's payrolls? Well, then, as the government told the Supreme Court, "If a statutory program offers more now than the economy can afford to furnish later, Congress has only to revise the statutory program."

As a matter of fiscal sanity, now would seem the time to take stock and find out if we can make Social Security function as it was originally intended. Some students in and out of government are suggesting putting all welfare back where it belongs—in the regular welfare budget, supported by general revenues, which everybody can see. Through such appropriations we can and must find ways to assist, with dignity, the disabled and the elderly who have no way to provide for themselves.

As for the rest, a blue-ribbon commission could explore the possibility of requiring workers to buy annuity insurance from government-regulated private insurance-investment funds just as some states require motorists to buy liability insurance. Whatever the means, Social Security must be restored to its legitimate purposes before it is too late.