

THE STUDENT BENEFITS PROGRAM
of the
SOCIAL SECURITY ADMINISTRATION
1965 - 1981

by
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The Social Security Program was identified as a research area in 1985, its Fiftieth Anniversary year. The Student Benefits Program was chosen for study due to its singularity of being one of only two or three Social Security programs which were legislated into and then out of the Act. It was voted into law in the 1965 Amendments and eliminated by the 1981 Amendments. The program had a very small budget in proportion to the whole of Social Security as well as a relatively small group of beneficiaries. Economic policy areas involved included internal, i.e. interfund borrowing, and external, i.e., inclusion within or exclusion from a unified federal budget.

INTRODUCTION

The Student Benefits portion of the Social Security Act of 1935 is nearly exclusive among the Amendments due to its being time-limited. It was enacted in 1965 and eliminated in 1981. This unique situation makes it ideal to investigate the political development and period of implementation and the political and economic reasons for its demise, as well as its policy implications. The program had a narrow base of support and encountered a great deal of opposition from the constituents it was designed to please, much to the surprise of its proponents. Moreover, during its active lifetime it endured a storm of attack that would appear unwarranted, which appears to be based on the program's vulnerability due to size and support. The special interest

groups lobbying for the program were not sufficiently strong; during a period of national economic stress and in a presidential election year it was discontinued.

The Student Benefits program was placed into the Act not as student aid but rather as an insurance provision for loss of wages sustained by the family while the young adult was unable to work due to attending school.¹ There was therefore no means test attached. The benefits were considered an earned right² contributing to future financial stability and independence of the family; further, it was compulsory, i.e. supported by a large group of individuals (everyone subject to Social Security taxes) which contributed to its financial soundness.³

The policy problem/issue is budgetary--which placement of the program best serves the intent of Social Security: within the Federal budget or separate from it? The opinion of those originally responsible for writing the Act is that it should be independent of the Federal budget and therefore not susceptible to political maneuverings. Its current (as of 1969) status as part of the budget has been posited as a major weakness by some but upheld as a strength by others due to administrative technicalities.

This issue is of major importance in the policy arena. It clearly extends beyond the boundaries of a small program aimed to benefit students. It has widespread implications for social welfare programs, especially during the 1980's when social programs have been the target of major budget cuts. (President Reagan named a goal of social program budget reductions from the current 22-23% of the GNP to 19% by 1990.⁴

The methodology used for this investigation included a legislative history of the 1965 Amendments to the Social Security Act of 1935,

University Graduate- and Document Library research of various evaluations of the program and reports on its status, documents research into the 1979 review hearings with a second legislative history of the 1981 Amendments in which the program was discontinued. An international conference on social security presented by the University of Michigan and personal interviews of Wilbur Cohen and other social welfare policy actors were followed by accessing the Congressional Research Service via Congressman Dale Kildee.

¹Cohen, Wilbur - personal interview 4/16/85.

²Social Security Programs in the United States. U.S. Department of Health, Education and Welfare, Social Security Administration January, 1966. U.S. Government Printing Office: Washington, DC

³Amidei, Nancy - personal interview 4/12/85.

⁴Ball, Robert M. U.S. Congress, Committee on Ways and Means, Subcommittee on Social Security, Hearings on Social Security Financing Recommendations. May 28, 1981. p. 92.

REVIEW OF RELEVANT LITERATURE

In investigating this topic, information had to be derived from government documents including hearings in the House Ways and Means Committee and the Senate Finance Committee, among other sources. This was a difficult task due to the fact that no standardized index could be found; research had to be conducted into various subject headings such as "Student Benefits," a heading used in some years, and finally, in the post Reagan election period, under "Stockman, David." Much of the hearing material is obviously very slanted and motivated by special interests, not the least of which appear to be the individual preferences and vested interests of the persons involved, both those giving testimony and those conducting the hearings themselves. Of interest here is the fact that little could be derived from the Congressional Record due to the fact that the program was a very minor one, flown in on the wings of a larger program and discussed but very little on the Congressional floor.

Less biased and more explanatory overall summaries are to be found in issues of the Social Security Bulletin. Authors include Robert M. Ball, Anthony J. Celebrezze and Wilbur J. Cohen, all giants in the history of Social Security. Their individual and combined longitudinal overviews provide invaluable perspective.

Various annual reports of the Social Security Administration to the U.S. Congress (1965, 1981, 1983) indicate chronological evaluations of the state of the program and recommendations for changes suggested by the Department of Health and Human Services, Social Security Administration itself. Two additional studies (1965, 1974) of program beneficiaries reported in the Social Security Bulletin provide another viewpoint, that of the individuals affected by the legislation.

Legal and administrative regulations along with policy implementation procedures are found in The Program Operation Manual System (POMS), the administrative policy/procedures manual provided for Social Security offices to follow in service delivery.¹

Policymaking for Social Security, by Martha Derthick, Director of Governmental Studies of the Brookings Institution is the first full-length study of the politics of Social Security. Derthick questions why a program of such importance has previously experienced so little conflict, and comes up with a twofold answer: 1) the program was run by experts, who briefed all incoming figureheads but who actually directed the workings of the program themselves, and 2) the program promised a high return on the investment of early contributions. Recently (the mid-70's), the Act developed a sizeable deficit and Congress and the Presidents (Ford, Carter, Reagan) proposed benefit reductions in relatively obscure and questionable parts of the program, one of them being the Student Benefits Program. In Uncontrollable Spending for Social Services Grants, Derthick examines executive control of federal spending between 1969 and 1972. She finds that spending got out of control mainly because HEW staff specialists lost jurisdiction of the program, and secondarily because policy-level appointed officials made choices which turned social services grants into 'a runaway giveaway.' She comments on the need for achieving control at the department level rather than by Presidential overview.

Joseph Califano provides a fascinating blow-by-blow account of 'who said what,' interrelating persons, personalities and positions in the end portion of the program's period of existence. This book, published in 1984, was recommended to this writer by Wilbur Cohen as the only written account of its type. In Governing America: An

Insider's Report from the White House, Cohen states dramatically that Social Security is incorrectly placed within the Federal budget, and that it is an earned right, paid for by workers' contributions to the Social Security Trust Funds. Califano disagrees, stating that the expansionary times of Johnson's Great Society are past and that Social Security program costs have to be measured against other needs in an era of limited resources. He continues that the Social Security program should be placed in a unified federal budget to be weighed against other claims on fiscal resources.

Champagne and Harpham provide an excellent historical perspective on social programs in general and the Social Security Act in particular in The Attack on the Welfare State. Among other illuminating facts, they point out the part played by Wilbur Mills, Chair of the House Ways and Means Committee in 1965, as "writer, producer, director and leading man in the Medicare/Medicaid drama"² which included the Student Benefits program. Also of relevance to this paper is the discussion contained therein of Reagan's approach to federal monetary support of education policy via the 1981 OMBRA³ which was based partly on his belief that increases in governmental spending on education in the 1960's and 1970's, directed at the needs of the poor, the disadvantaged, and various professional and social services, was leading to "a growing and inappropriate influence on parental, state, and local decision-making."⁴ Reagan thus presented his philosophy behind massive educational (and by extension, social welfare program) benefit reductions.

In Social Principles and the Democratic State, Benn and Peters examine some theories of distributive justice underlying collective social choices resulting in preferential treatment of some members of society.

Researching this particular subject in the Government Documents Library and following through with related materials to obtain a view

of the program from pre-legislation to evaluation of the program after its conclusion was effected with information gained in M.P.A. course work, especially Political Science 510, Intergovernmental Relations. Specifically, that class presented 1) the usefulness of legislative history, 2) how to follow a program from the point of identification of the problem and the need for legislation to the local arena (local board meetings, etc.) to the legislature and its many committees, reporting out of committee and conference agreement, and its being signed into law, 3) budgetary implications and follow-up, 4) legal and administrative regulations analysis, and 5) political systems analysis and how to carry out research via use of legislative documents. This training, and the skills obtained from the experience in research methods proved invaluable to the current project. Coursework of a major supportive nature included Health Care 410, Planning and Regulation in Health Care, which enabled the writer to better evaluate the political not-so-obvious processes as well as evaluate the program itself. A key issues addressed in that class proved of utmost relevance to this paper, i.e., "was the political environment adequately assessed/anticipated, and therefore is planning appropriate for the environment in which it is to be used?"⁵ (The answer in this case is an emphatic "NO.") Bernard Crozier states (The Bureaucratic Phenomenon) that the bureaucracy is incapable of learning from its own errors, which appears fitting in this context.

Public Administration 500 and 502 likewise contributed valuable background and provided the writer with the necessary skills to investigate economic, political and institutional factors (the institution being Congress) both internally and externally, which affected the course of the Student Benefits program.

The views of others provided insights into the workings of the program. Wilbur Cohen, who helped author the original Act, and

Charles Saunders of the American Council on Education pointed out the discrepancy between intent of the program (to supplement loss of family income while 1) a child is in school [secondary or college] or 2) when a parent dies or is incapable of supporting the family) - with no means test attached, and its eventual use (as replacement of funds not provided by other sources, including educational loans and grants, in which the family's ability to pay is considered and means tests are an integral factor in determining eligibility.)

Personal interviews with Mr. Cohen and Nancy Amidei, a lobbyist for the underprivileged in Washington, D.C.⁶ provided complementary perspectives. Mr. Cohen provided information not available in written form about the intent of the Social Security Student Benefits package (to provide the current payors into the fund [i.e. contributors] a benefit to encourage their support) and the result (the payees were outraged.) Ms. Amidei's macro perspective pointed out that the problem was not with the program and its administration but with a lack of political support.

A recent international conference on Social Security and Family Care of the Elderly, celebrating the fiftieth anniversary of Social Security, presented a global view on Social Security benefits. The conference was co-sponsored by the School of Social of Social Work, School of Dentistry, the Institute of Gerontology and the Center for Human Growth and Development of the University of Michigan and held July 21-23, 1985 at the Rackham School of Graduate Studies. It focused on policy directions via comparison of family/economic security in Korea and the United States. Speakers included Wilbur J. Cohen, W. Andrew Achenbaum (Shades of Gray: Old Age, American Values, and Federal Policies Since 1920), Richard C. Adelman, Director of the Institute on Gerontology, University of Michigan, Sylvester E. Berki, Director of the Bureau of

Health Policy Research, University of Michigan, and James N. Morgan, Professor of Economics and Research Scientist in the Survey Research Center, University of Michigan.

Finally, David Hollister (D Lansing), Chair of the Appropriations Subcommittee of the Health and Social Services Committee, made a presentation on "Political Advocacy for Social Change" (School of Social Work - University of Michigan, 11/18/85) in which he cited cuts in programs benefitting the poor as being higher now than any time since 1965. He discussed major strategies against poverty, especially political advocacy, and perspectives on past practice with alternatives for future action.

¹POMS: Chapter 02: Benefits & Payments, Subchapter 05: Student Benefits.

²Champagne, Anthony and Edward J. Harpham. The Attack on the Welfare State. Prospect Heights, ILL: Waveland Press, Inc. 1985. pp. 65-67.

³Omnibus Budget Reconciliation Act.

⁴United States, Executive Office of the President, Office of Management and Budget, Budget of the United States Government, Fiscal Year 1984. Washington, D.C.: U.S. Government Printing Office, 1983. pp. 5-88 in Champagne and Harpham, Attack on the Welfare State.

⁵Carl Vann, Ph.D. Lecture Notes, Health Care 410, Planning and Regulation in Health Care.

⁶Ms. Amidei was one of the major iconoclasts who broke to the public the fact that ketchup was being considered a "vegetable" in determining the nutritional value of government-subsidized lunches.

LEGISLATIVE HISTORY OF THE 1965 AMENDMENTS

The Amendments of 1965 embody the most far-reaching Social Security legislation enacted since the original Act was passed some thirty years previously. They originated with Representative Forand (D. RI) who introduced a bill which was the subject of public hearings held by the Ways and Means Committee of the House of Representatives in 1958. The Committee recommended that it needed more information than was obtained in the hearings in order to formulate a decision; no further action ensued during that session.¹

The Eighty-Ninth Congress convened on January 2, 1965. Social Security legislation involving health insurance and increased cash benefits was considered noncontroversial, according to Wilbur Cohen, Under Secretary, Department of Health, Education and Welfare.² The House, in an unusual action, changed the composition of the Ways and Means Committee shortly after convening, to reflect the large majority of Democrats in the House.

On January 27, the House Ways and Means Committee began executive sessions on the King-Anderson bill (which introduced hospital insurance) and other bills. It adopted the Administration's proposals for hospital insurance and other broadening features of the program, including payment of insurance benefits to children after attainment of age eighteen, and up to the age of twenty-two for a fulltime student.³ Throughout the hearings held by the Senate Finance committee, testimony was aimed at proposed health insurance provisions.⁴ A number of amendments were adopted, but none related to student educational benefits.

On July 14 the House and Senate met to settle their differences of opinion on H.R. 6675. On July 26 the report was filed, again with no change made in the student benefit recommendations. On July 27

the House adopted the conference report (307-116). On July 29 the Senate adopted it (70-24). President Johnson signed the bill on July 30, 1965, to become Public Law 89-97. Its statement on student benefits:

SCHOOL ATTENDANCE FOR CHILD RECIPIENTS - The definition of a school in which a child aged 18-21 may receive aid to families with dependent children, at the State's option, is broadened to include college.

And so, simply and uneventfully, a provision for student educational benefits for college attendance was law. The political and economic climate of LBJ's administration favored such an action so much that it was hardly even referred to in documentation of the proceedings. Rather, it slid into law under the auspices of a much larger plan (hospital care: Medicare), barely noticed by The Great Society.

REPORT OF THE ADVISORY COUNCIL ON SOCIAL SECURITY 1965

On January 1, 1965, Robert Ball, Commissioner of Social Security, in his capacity as Chairman of the Advisory Council on Social Security, submitted a report⁵ to the Board of Trustees of Social Security. The Council held in 1965 was only the second in a series established by a 1956 amendment. The Council was the sixth major advisory group to provide expert opinion and guidance for the program. It held its first meetings June 10 and 11, 1963 and met frequently throughout the rest of 1963 and during 1964. The Council endorsed the concept of social insurance as the best way to provide, in a way that applies to all, that family income will continue when earnings stop or are greatly reduced due to retirement, total disability or death. It emphasized that it was a method of PREVENTING destitution and poverty, not of RELIEF from those conditions. Operating through the combined efforts of worker and

employer, it was viewed by the 1965 Council as being in total harmony with general economic incentives to work and save, and further as working in partnership with voluntary insurance, individual savings and private pension plans.

The Council recommended that, "Benefits under the Social Security program ... should be paid to a child as long as it is reasonable to assume that he is dependent on his family ... Benefits were first provided for children by the 1939 Amendments."⁶

FIRST STUDY BY SOCIAL SECURITY ADMINISTRATION - 1972

The Office of Research and Statistics of the SSA⁷ authorized what resulted in a well-designed study performed by an independent agency to investigate adequacy of the student benefits program. The format included selection of a single primary sampling unit from each of 100 strata by appropriate probability procedures. The PSE was derived from the Bureau of Labor Statistics' Current Population Survey. Reliability was reported as being good by Ruggles and Zuckert⁸.

The findings of the mail survey showed a positive correlation between monthly benefit amount and continued schooling. Students receiving benefits numbered 564,000. Fifty-three percent were men, forty-six percent were women. Two-fifths were 18 years old, with declining percentages as the age of 22 was approached. Eighty-five percent were White, fourteen percent were Black, and one percent were Other. Two-thirds were receiving benefits due to the death of a parent; the remainder received the entitlement based on a parent's disability or retirement.

The survey showed a positive correlation between monthly benefit amount and continued schooling. Students with the lowest benefits were found more likely to drop out and those with higher benefits

tended to stay in school until reaching age 22. However, two-thirds of all terminations during 1971 were because full-time school attendance had ended, and only one-fifth because the student had reached age 22.⁹

SECOND STUDY BY SOCIAL SECURITY ADMINISTRATION - 1974

A second, more involved study of students receiving educational benefits was commissioned by the Office of Research and Statistics. The format of this survey was direct interview of 3,000 (out of 634,000) student beneficiaries and their families. This, as the first, was carried out by an independent research agency, was clearly well-designed, rigorous and scientific. Again sample frames, study design, target population, weighting procedures, sample variability, confidence intervals, sampling error, reliability and validity are discussed at length.

The survey sought to determine effectiveness and adequacy of the student benefit program. These questions are more complex than simple evaluation of the extent to which the program attains its objectives, i.e. the extent to which lost earnings are replaced by the program. The question here is, rather, the extent to which the benefit permits the family education function to be completed in a manner consistent with the general population. The survey examined whether student beneficiaries resembled other students.

Age distributions matched. A higher proportion of Blacks (fifteen percent) was found in the student beneficiaries than in the general student population (ten percent). An important finding was that the median family income of student beneficiaries (including high school student beneficiaries) in 1972 was \$8,540, about two-thirds the median income for all American families with children aged 18-24 enrolled in high school or college full-time. Median income of families with college

student beneficiaries was \$9,690. Without the benefits the income would have been \$8,309. This shows that the student's benefit was an important component of family income, as was its purpose.

Student beneficiaries generally had high grade-point averages, with more than half earning grades of "B" or better. Eighty percent of them worked at some time during the year in addition to attending school full-time. The median length of time worked was 28 weeks, nearly two-thirds of the school year. Thirty-five percent of the working students worked 35 weeks or more, which meant that they worked between semesters and during holiday breaks as well as during semesters. They were more likely to work than students in the general population.

SEX	PERCENT WORKING, AGED 18-19			
	Student Beneficiaries		All Students*	
	College	High School	College	High School
Male.	47	51	37	31
Female	44	35	29	23

*Estimated from Bureau of Labor Statistics, Employment of School Age Youth, October 1972 (Special Labor Force Report 158), 1973, tables and text on page 13.

†Table replicated from Social Security Bulletin , November, 1976.

Beneficiaries were more likely to be minority (15% compared with 10% of the general college student population) and to have parents working at blue-collar occupations more often than the rest of the population. The student benefit was an important component of the family income. Median income of student beneficiaries in 1972 was about two-thirds of the median income of \$12,820 for all American families with children 18-24 enrolled in high school or college full-time.

Youth receiving student benefits were more likely to attend college, working at the baccalaureate level (as opposed to technical/clerical training). More than half of those in college relied on the benefits to support their education; a third felt they would not attend school full-time if they did not receive the entitlement. These findings became the data base for future review of the program.¹⁰

SUGGESTIONS TO PHASE OUT THE PROGRAM

When the Social Security Amendments of 1965 became law on July 30, there were no Federal programs to provide grant monies to students. Estimates were that 295,000 students would apply for the new benefits, in the amount of \$195 million for the first year. In fact, 376,000 persons qualified and \$323 million was paid out, twenty seven percent more participants and sixty-six percent costlier than anticipated. By 1975, one-eighth of all college students were receiving Social Security benefits. During 1977, outlays were over 1.6 billion dollars for 481,000 students; the average grant was about \$1,900.

Inside the Office of Management and Budget, fiscal experts were taking an interest in Social Security finance and asking what effects surpluses or deficits in the Social Security program would have on the budget as a whole. Eventually, this led to proposals for reducing certain elements of the program, principally student benefits. Because other government programs had developed to aid college students, budget analysts began to suggest that student benefits under Social Security should be cut.

President Ford had proposed elimination of the program once in January, 1975, and again just before the end of his term, but Congress twice rejected his recommendations. His reasoning was to reduce the

drain on the Social Security funds and that other programs could then better serve the students.

President Carter withdrew the proposal in 1977 (Ford's proposed 1978 fiscal budget), and instead proposed a ceiling on student benefits limited to the amount payable under the Basic Educational Opportunity Grant (BEOG) ceiling for students, which was \$1,400 in fiscal 1978.

CARTER'S BALANCING OF THE BUDGET

On December 5, 1978, in a response to a request from President Carter for ways to move toward a balanced budget in 1981, Joseph Califano, Jr., Secretary of HEW, recommended a number of changes, including:

- 1) disability program reform
- 2) taxation of Social Security benefits
- 3) raising the age for eligibility for retirement benefits
- 4) phasing out post-secondary student benefits
- 5) eliminating the lump-sum death benefit for burial.

Persons already receiving benefits would be grandfathered in. Reforms would apply only to those who would become entitled to benefits in the future. These were regarded as modest reforms resulting in a one-percent reduction in the cost of the Social Security program which was slated to exceed a cost of \$100 million in 1980.

These proposals angered and alienated three of the architects of the Social Security program. One was Robert Ball, Social Security Commissioner during most of the 1960's and early 1970's under Presidents Johnson, Carter and Nixon. He had helped draft Carter's Social Security position during the 1976 campaign. Wilbur Cohen, HEW Secretary for the last portion of the Johnson administration and one of the authors of the original Act was outraged. Nelson Cruikshank, Carter's White

House Counselor and Chair of the Federal Council on Aging was equally distraught. The President considered the proposals in light of the fact that senior citizens vote in far greater numbers than do young Americans and are a broader political base. In spite of this fact, Carter was dedicated to balancing the Federal budget to help his stand in the upcoming election and was willing to chance the loss of senior support.

Cruikshank, Cohen and Ball met with the President privately on December 20, 1978, arguing for the Social Security program to be considered separately from the total Federal budget. In a memo, they warned that the " 'budget game' grows out of the fact that since fiscal year 1969, the separately financed benefits of Social Security have been lumped with the general revenue expenditures of the rest of HEW in the budget ceiling given the Department. Thus, the Department makes proposals to cut Social Security benefits as a way of protecting other Department programs. Then, when the Social Security proposals are not accepted by Congress, the total HEW budget is greater than would otherwise have been the case."¹¹ Carter sent their memo to Califano, noting that the arguments were very persuasive and requesting a response by December 22, the last working day before Christmas.

A meeting between Cohen, Ball, Cruikshank, Califano, Hale Champion and Stanford Ross (Social Security Commissioner) took place January 22. It is reported in Governing America by Califano.¹² Mr. Cohen, in a personal interview, stated that this is the only public record of the eventful meeting. It is a worthwhile glance into the political maneuvering and sub-maneuvering behind the legislative changes:

"The two-and-one-half hour meeting was so emotional, angry, and loud that outside the thick closed door, there were moments when my secretary wondered whether we were exchanging blows," states Califano.

"There are reductions of over one billion dollars in benefits that people have earned," Cohen was almost shouting.

Califano responded, "These are not 'earned' in any true sense. People get a lot more out of Social Security than they put in. Any program has to be changed as the times change. Benefits were added when the system had surplus funds. Today, it's under a severe financial strain that's going to get worse. In these times, if people don't need it, government doesn't do it."

"The worst mistake," Cohen said, "was when Social Security became part of the federal budget. We should go back to separating it out. Then you wouldn't cut it to meet a budget target."

From Califano - "The worst mistake would be to treat it separately. The claims of senior citizens for tight dollars have to be weighed against other claims. The unified budget faces up to those kinds of considerations."

Cohen exploded. "What you just said proves you don't believe in the Social Security program. It is a separate program. People have rights. You don't believe that."

"Social Security needs to be reviewed periodically like every other program. We can ease the impact of cuts by not letting them apply to anyone now receiving those benefits. But changes have to be made," Califano responded.

Cohen insisted, "But you have prepared tax reduction proposals."

"Only as a contingency. If there's going to be a reduction, we want an intelligent one. If the President or the Congress wants to reduce the 1981 tax, it should be done in a way that makes sense."

Cohen threw his arms up in exasperation. "We talked to the President. He doesn't know much about your changes."

"I have briefed him in detail," Califano replied. But all three made it clear that they had left the presidential meeting with the distinct impression that Carter was not familiar with my proposals in any depth - a posture I (Califano) concluded he assumed because the three of them were so opposed to my suggestions.

"Your heart is not in the Social Security program. You're trying to dismantle it. You never speak up for the program," alleged Cohen. "If you propose these changes, I'm going to organize all the senior citizens groups to picket you wherever you speak. Wherever you go, they'll be there picketing you." He was standing, his face florid, his whole being shaking with rage. "You do not believe in the Social Security program; you never try and get good press for it. Instead of talking so much about smoking, you ought to be talking about what a great thing Social Security is for this country. You ought to be defending it and building up confidence in it. These changes will destroy it."

On January 24th, Carter called Califano with the message, "Cruikshank is threatening to resign as my Counselor on Aging unless he can speak out publically against the Social Security reduction proposals."

Califano retored with, "I don't see how you can run your government and let a presidential aide attack the President's proposals."

"Hamilton (Jordan) is concerned that if Cruikshank quits, he will organize all the senior citizens groups against us," Carter said.

"Can't he just stay on and keep quiet? Just not support the proposals actively? Mr. President, it demonstrates a severe lack of discipline in your administration."

Carter replied, "I don't want to have both an Abzug incident and a Cruikshank incident in the same week. I hope you'll be able to live with this if I decide to let him stay on and speak out."

Later Mondale (who had opposed all reductions in benefits) told Califano that he thought the Social Security proposals were "the worst political mistake in the 1980 budget and legislative program." The Congress apparently agreed: except for disability reform, we couldn't get anyone in either house to introduce our proposals."

1979 HEARINGS

The most thorough policy evaluation, albeit plagued with misinformation and political bias, was produced by hearings in 1979. The bias is evident in the press release announcing the hearings,¹³ and blatant in Ways and Means Subcommittee on Oversight Chairman Sam Gibbon's remarks:

(Press release of Jan. 31, 1979)

WAYS AND MEANS OVERSIGHT SUBCOMMITTEE TO REVIEW SOCIAL SECURITY STUDENT BENEFIT PROGRAM

The Ways and Means Subcommittee on Oversight will review the Social Security student benefit program to determine whether the program is still necessary, Chairman Sam M. Gibbons (D-Fla.) announced today.

The hearing will be held Thursday, February 8, at 9 a.m. in Room 2203, Rayburn House Office Building.

"This program now costs more than \$1 billion a year," said Chairman Gibbons, "and we need to determine whether it has outlived its usefulness in light of new and expanded Federal aid programs providing student education assistance."

Benefits under the Social Security program are paid to unmarried students, 18 to 21 years old, who are children of covered retired, disabled or deceased workers. Non-students in this age group, or married students, are not eligible for such payments

The hearing will begin with testimony from the General Accounting Office which has done an extensive review of the program and its beneficiaries. Among other things the GAO found that thousands of students are receiving benefits in excess of their total college costs and, in many cases, are receiving payments from two or even three different federal student assistance programs.

Also testifying will be representatives of the Department of Health, Education and Welfare, which administers the Social Security student program as well as the basic educational grants program, the American Council on Education, which represents post-secondary institutions, and the Chamber of Commerce of the United States.

"I believe we should encourage our young people to attend college," said Chairman Gibbons. "But I am not convinced that the Social Security student benefit program is fair, effective, and a necessary use of Trust Fund moneys."

The GAO study also found that eliminating the program and expanding other aid programs would save the government approximately \$500 million annually on a net basis with larger savings accruing to the Trust Fund.

Sam Gibbons, Chair:

"Oversight hearings on medicare have proved to me beyond a shadow of a doubt that social security is the greatest system for throwing money at a problem that man has ever created, without any regard to cost or need."¹⁴

"You know, you get disappointed in life and the Social Security Administration, if you are persistent and lucky enough, will take care of your problems until you die ... I have got to say that disability insurance has deteriorated into disappointment insurance."¹⁵

And, to Charles Saunders of the American Council on Education,

"You know, I am always amazed at these people who volunteer for all the rest of the working people of the United States to pay more taxes, and that is what this is, the testimony of yours is just that. I will say that you are consistent, though. In the seventeen years I have been in the Congress, I have never found that the American Council on Education said that they had enough of anything [laughter.] Perhaps if all of you paid the social security tax that all the other working Americans are required to pay,¹⁶ you would be willing to scream you have had enough."

INSURANCE vs. AID

A fundamental question was whether the student benefit was to be considered as insurance or a government transfer. Historically, from the inception of the program it was considered an extension of a child's benefits.¹⁷ The original philosophy was that the young person still in

school was considered a part of the family group. The program considered him/her dependent as long as remaining in college. It was intended to partially compensate for income lost due to the death, disability or retirement of a worker/parent. Benefits were not considered aid, but rather as part of the family's income. This was recognized by Congress when the 1976 Higher Education Amendments were passed. The benefits were not needs-based but related to the previous earnings of the worker, for that program.

In the November, 1976 issues of Social Security Bulletin is stated, "Unfortunately, the student benefit is sometimes misunderstood to be a form of aid rather than a component of family income. Despite its name and the requirement for school attendance, the student benefit program is not a grant, scholarship, loan or aid program. The distinction is fundamental."¹⁸

OTHER FINANCIAL ASSISTANCE PROGRAMS FOR STUDENTS

Financial assistance had become available for students through the HEW's Office of Education. This was a major source of Federal student financial aid for postsecondary education. These programs were not established with Social Security student benefits began in 1965. Major programs were:

1. Basic Educational Opportunity Grant (basic grant) (BEOG)
2. Supplemental Educational Opportunity Grant (SEOG)
3. College Work-Study
4. National Direct Student Loan (NDSL)
5. Guaranteed Student Loan (GSL)
6. State Student Incentive Grant

The basic grant is the starting point for all Office of Education (OE) aid. Family income is a major factor in determining eligibility. See Appendix I. for more complete explanation of the programs.

Additionally, the Middle Income Student Assistance Act (MISSA)

was scheduled to go into operation in 1979. Hearing testimony indicated that without the enactment of this new program, only 161,000 student beneficiaries would have been eligible for Federal monies. The record indicates that 360,000 undergraduates would be affected by a phaseout of benefits. However, this is misleading as the total number of student beneficiaries was closer to 600,000. Throughout the hearing, numbers were quoted misleading and incorrectly, with recommendations being made on the basis of erroneous information.

It was felt that the combination of resources available in 1979 through the OE as well as other programs (for example, Veteran's Administration) was sufficient to provide necessary assistance to students affected by Social Security cuts. A major point was that these programs were all needs-tested and Social Security was not. Therefore, they were considered to be more effective distributors of scarce Federal resources. This philosophy was an unstated central point in the hearings.

The OE was asked if assistance from other programs would insure that needy students would not be forced to leave school for financial reasons. It responded that the cutback would increase eligibility for other (means-tested) programs. It was later pointed out, however, that for every ten dollars cut from Social Security, only one dollar would be added to the basic grant, due to calculations specifying Social Security money as family income, which was subtracted from the maximum grant size in determining BEOG eligibility and student award.¹⁹ Students with family incomes below \$7,500 per year who received the maximum BEOG award could receive nothing extra if the student benefits were eliminated.

Costs to the basic grant program would increase due to a greater number of applicants. Many previously ineligible students would become eligible, and some already receiving BEOG grants would be eligible for a larger amount. The General Accounting Office (GAO) was directly

interrogated as to whether it had determined the adequacy of other programs to provide educational assistance if Social Security benefits were cut. It had not.²⁰ The OE indicated that funding had been increased for the BEOG grant program in 1979. No increases had been requested for 1980, due to time constraints. There was not time to alter budget requests to correspond to Social Security educational benefit reductions. The OE's fiscal planning might be evaluated by the following statement by Peter Voight, Acting Director, Division of Program and Policy Development, "However should it become apparent during the course of the academic year that the Basic Grant appropriation was not sufficient to cover these additional costs, the administration would request the additional amount at that time."²¹ Realistically, if that should occur, the program would be out of money and allocation of new monies would take a period of time which would leave recipients out in the cold.

At the budget briefing regarding the OE budget, held on January 20, 1979, the Commissioner of Education was unsure of the impact on BEOG. Later GAO estimates were that \$101 million more would be needed in the BEOG fund for the next two years.

LOAN AVAILABILITY

The uneven availability of campus-based funding, with different universities receiving varying amounts in addition to the financial backgrounds of students attending different schools contributed to a very different sort of program than the entitlement provision of Social Security. The consumer lending industry had indicated a commitment to the GSL program, supporting the passage of the Higher Education Act. Insufficient earning rates and administrative red tape contributed, among other things, to lack of anticipated strength in that program. For some students, loans were not available because the lending institution

did not make the loans. When questioned if capital was being made available by financial institutions, Mr. Voight said, "that is very difficult to do." Sam Gibbons, Chair, added, "In fact, anybody who wants to submit themselves to just a very modicum of Government supervision can make these loans." Mr. Voight added, "It varies from state to state and city to city. As I said, we are doing everything we can to make more capital available."²²

BEOG CRITICIZED

Harassment of applicants was cited as a problem by Southern University, the nation's largest black university, reporting that half of its student body had applied and not one applicant had heard by the date of registration whether they would be getting a grant or not.

ALTERNATIVES

A suggestion was made to offset Social Security benefits by the amount of assistance provided by other Federally funded programs. This was concluded to be "an administrative nightmare" by Robert Bynum, Acting Deputy Commissioner for Programs, Social Security Administration. "It's complicated enough already ... to find out whether or not the child is in school, unmarried, and all the other things which they have to consider in the test for eligibility for the Social Security benefit."²³ He indicated this would be extremely difficult because: 1) SSA would be adjusting benefit amounts in response to other programs which consider Social Security funding in determining their awards, and would be a chain reaction, 2) SSA would have to implement continuing interaction with VA, OE, and State AFDC programs, and 3) essentially, use of this information would change the SSA program to be a means-tested program, which violates the intent of the law.

Charles Saunders, Director of Governmental Relations, American Council on Education, felt clearly that other Federal programs would not restore loss of Social Security benefits. He quoted the 1974 Survey, noting that the majority of beneficiaries come from families who, without the benefit, would have serious difficulty meeting college education costs. He then quoted a report from the Congressional Budget Office (1976) showing that sixty-eight percent of all outlays for the program were received by students with family incomes below \$10,000. Eighty-eight percent were below \$15,000 and only four percent were over \$20,000.²⁴ His very effective statement using examples of impact of loss of Social Security monies to families is contained in Appendix II.

POOR ADMINISTRATION OF THE PROGRAM

The GAO concluded that Social Security benefits significantly overlapped OE program benefits and a general laxness was attributed to the administration of the Social Security program.

Reporting: Up until about 1975, the SSA contacted the student's college to verify full-time attendance. Audits indicated that students were, for the most part, performing well in reporting, and the universities were carrying out their responsibilities. In determining cost-effectiveness, it was determined that the checking should be discontinued. The program required the student to supply information that would disqualify himself. Upon questioning, it was found that most were reporting correctly.

The SSA conducted its own investigation in 1978 and found that, contrary to the earlier study, there were problems. Changes recommended were requirement of the student to verify full-time attendance with the

school registrar, and validation with OE records regarding other qualifying information. These changes had not yet been implemented in 1979.

Duplicate Payments: The GAO study indicated a problem with "duplicate" or overlapping payments. Most of the students identified by the GAO as receiving overpayments (forty-one percent) received less than \$600 per year in excess of stated educational expenses. These payments, considered part of family income, were based on a twelve month year, not a fiscal educational year.

25
Chart 19

GAO estimate—social security student beneficiaries with social security student benefits in excess of school cost—academic year 1976-77

<i>Excess benefit range:</i>	<i>Number of social security students</i>
\$1 to \$100.....	5,364
\$101 to \$300.....	9,812
\$301 to \$600.....	11,834
\$601 to \$1,000.....	9,494
\$1,001 to \$1,400.....	3,300
\$1,401 to \$1,800.....	570
\$1,801 to \$22,00.....	55
Over \$2,200.....	6
Total.....	40,435

The SSA replied to GAO charges that because Social Security benefits are not means-tested, the amount of the benefit is related to the entitlement of the worker upon whose earning the student is drawing, not education costs or benefits. An interesting conclusion was reached by the SSA: the "mismanagement" was therefore located actually in other programs which **were** means-tested. Although this suggestion would appear to have merit, no mandate was given to other programs to review duplicate payments.

Fraud: Although a great majority of beneficiaries were following the program's rules, the GAO indicated that some went beyond abuse of the funds, and alleged fraud. ("Willful intent" was acknowledged by SSA

officials.) In 1977-78, 905 cases of suspected fraud were identified, mostly due to not reporting changes in student or marital status. Eighty-one overpayment cases involving alleged fraud were referred to a U.S. Attorney for prosecution. Ten resulted in convictions, fifty were awaiting decisions and seventeen cases rejected by the Attorney. Prosecution was terminated in four cases due to benefit repayment.²⁶ Data estimates on recovery of overpayment indicate that roughly seventy-five percent of identified overpayments are recovered.

Questionable Validity of GAO Study: The GAO study which prompted the 1979 hearings used as its data base information from review of campus financial aid records obtained from visiting 119 schools in upstate New York and Los Angeles, California. The samples chosen did not reflect the universe (sampling frame error). Nationally, twenty-four percent of full-time students attend community colleges, and incur lower costs than residential college students. In California, the proportion is forty-two percent. Additionally, California schools have one of the lowest costs due to state residency advantages. Data regarding school costs were collected from the schools, which often underestimate non-instructional costs such as transportation, housing and normal personal expenses. Questions also arose about why rural states were not included in the sample. It was concluded that the sample was not at all representative of the country.

The GAO survey also made use of SSA data from the 1974 Survey quoted above. Comparing 1979 data to 1974 data became problematic, especially in looking for overpayments, since the BEOG was not available to students in the SSA survey.

An example of biased reporting on payment duplication follows:

"We also identified about 4,000 students who received benefits from Social Security, VA, and basic grant programs, which when totaled were greater than their educational costs. [1.8 percent of the total beneficiaries], and eighty-five percent of these students [or 1.5 percent of the whole] expected to receive benefits exceeding their annual educational costs by more than \$1,000 and a few [24, or .0001 percent] by more than \$5,000." (Bracketed statistics provided by writer.) "For example, a student in our sample was paid about \$1,600 in Social Security student benefits from December, 1975 through 1976, although failing all 30 credit hours taken."²⁷ [One student is pulled from the 119 colleges and universities studied; the insurance concept of Social Security does not include qualifying by grades.]

Conclusions: Sam Gibbons, Chair, stated, "Our first impression is that the information supports the administration's position that student benefits now duplicate education benefits and should be phased out."²⁸ Robert Bynum of the SSA commented that the GAO report had not been out long enough to be completely researched.

The most complete investigation into the program concluded with no action being taken.

LEGISLATIVE HISTORY OF THE 1981 AMENDMENTS

In his inaugural address on 20, 1981, President Reagan spoke of the urgent need to reform domestic spending programs. Less than seven months later (August 13), he signed into law the Omnibus Budget Reconciliation Act (OMBRA) of 1981, PL 97-35. This law provided for phasing out student benefits for persons aged 19 or over in postsecondary schools ... thereby eliminating the Social Security student benefit program.

In an address to a joint session of Congress on February 18, Reagan announced his Program for Economic Recovery. Of the nine guidelines for budget reduction, the first two specifically related to Social Security: to 'preserve the safety net' and 'revise entitlements to eliminate unintended benefits.' The next day, Richard S. Schweiker, Secretary of HHS, testified

before the Ways and Means Subcommittee, recommending elimination of the minimum benefit for present and future beneficiaries and phaseout of student benefits for those in postsecondary schools.

On March 10, Congress received more detailed information from the Administration regarding proposed changes. Draft legislation added proposals and technical amendments which had been recommended by Carter's administration. The Reagan administration bill was sent to Congress April 7, introduced on May 6 to the House and on June 1 to the Senate. It provided for:

"Eliminating payments to students aged 18-21, pursuing higher education, effective for August, with a 3-year phaseout for current postsecondary student beneficiaries, and eliminating benefits for students in elementary or secondary school upon attainment of age 19, effective for August, 1982. The administration observed that such payments are unrelated to educational costs incurred and that other Federal student assistance programs are a more appropriate source of educational assistance."²⁹

The administration therefore recommended means tested programs.

The House Committee on Ways and Means, Subcommittee on Social Security met May 28. Issues taken under consideration were primarily interfund borrowing to finance the program and proposed budget cuts. Testimony was presented by a wide range of persons, from Robert Ball, Douglas Fraser (U.A.W.), the Chamber of Commerce, and The Townsend Plan National Lobby to David Stockman of the Reagan administration. Of seventy-one representatives of organizations, only the National Education Association and the Women's Equity Action League (WEAL) spoke to the issue of student benefits being dismantled. The NEA repeated arguments presented in 1979, namely the entitlement aspect of the program, and coordinating changes with other programs to provide available and adequate basic grants. The WEAL repeated testimony presented by Mr. Saunders in 1979 regarding median family income of student beneficiaries. They noted that for many, the cost of a college

education would be placed on a widowed minority mother between the ages of 40 and 60 who would lose her own "mother's benefit" when the student turned age 18.³⁰

Stockman noted, "Our fundammental objective must be to restore reserve levels in the fund ... The administration package on student benefits, etc. and the recent package of proposals would save ... just about the level that would be needed to restore reserve ration adequacy ... So the conclusion that I draw, Mr. Chairman, is that the administration package may not be perfect, but to paraphrase Winston Churchill, it is less imperfect than all of the other major viable alternatives."³¹

The House bill, H.R. 3982, was introduced on June 19; the Senate version, S. 1377 on June 17. Floor consideration was virtually simultaneous in the House and Senate. Actions by one body influenced actions by the other. Provisions about to be passed by the Senate were included in the House bill and vice-versa. The entire package was viewed in its totality, the whole being considered more significant than any of its parts. On June 25 the Senate passed OMBRA without significant modification. On June 26 the House passed it. The Conference Committee reached final agreement on July 29. The agreed-upon form was passed by the House on July 31 with a voice vote and the same day by the Senate voting 80-14. On August 13 President Reagan signed the bill, PL 97-35 into law.

INTERGENERATIONAL CONFLICT

In a personal interview,³² with Wilbur Cohen, Visiting Sid Richardson Professor at the Lyndon Baines Johnson School in National and Public Affairs, University of Texas, Mr. Cohen stated that, "student benefits

was an initial idea to bridge the generational gap." It was designed to provide a small measure of benefits for workers actively contributing to support the system. The reasoning was that if the worker could receive some benefit before retirement the system would be strengthened by a broader political base. Professor Cohen commented that the younger people didn't adequately appreciate the value of the program. With only 800,000 beneficiaries, the program was relatively ineffective in extending the support base for Social Security.

In fact, the twenty-six million elderly Social Security beneficiaries saw the student benefits program as a threat, allocating resources away from rather than toward them. Cohen names the issues brought up in hearings and reviews of the program (i.e. program mismanagement and duplication) "pimples on the problem. Underneath was the widespread attitude of very conservative older people, later reflected in the Reagan group, that the program was spending a lot of money on young kids who were loafers and draft dodgers." There ensued an undercurrent of hostility and antagonism flowing from the older to the younger generation. The elders verbalized thoughts that their benefits were going to lazy young people who used them to go away to school and smoke marijuana in order to get an educational deferment and avoid being drafted into the Viet Nam war. Cohen states that he has spent a great deal of time trying to tell older people that "if they don't look out, younger people would rebel against paying the Social Security tax." Because it is a pay-as-you-go program, there would, very shortly, be no support for the elderly. Cohen calls the program's efforts "an absolute failure" in this regard.³³

- ¹Cohen, Wilbur J. "Reflections on Thirty Years." Social Security Bulletin, Vol. 28, NO. 8, August, 1965. Page 4.
- ²Op. Cit.
- ³Social Security Amendments of 1965: "Report of the Committee on Ways and Means on H.R. 6675" (House Report No. 213, 89th Congress, First Session), 1965, page 20.
- ⁴U.S. Congress: Senate Committee on Finance Hearings, 1965. 89th Congress, First Session.
- ⁵Advisory Council on Social Security, Robert Ball, Chairman: "Report on the Status of the Social Security Program and Recommendations for Its Improvement." Social Security Bulletin Vol. 8, No. 3. March, 1965. pp. 4-41.
- ⁶Op. Cit.
- ⁷Ruggles, Patricia and Carol Zuckert. "Social Security Student and Former Child Beneficiaries Aged 18-21," Social Security Bulletin, Vol. 17, No. 3, March, 1974. pp. 26-35.
- ⁸Op. Cit.
- ⁹Springer, Phillip. "Characteristics of Student OASDI Beneficiaries in 1973: An Overview." Social Security Bulletin, Vol. 19, No. 11, November, 1976. pp. 3-32.
- ¹⁰Op. Cit.
- ¹¹Califano, Joseph A., Jr. Governing America: An Insider's Report from the White House and the Cabinet. Simon and Schuster, 1981: New York. p. 309.
- ¹²Op. Cit., pp. 301-397.
- ¹³U.S. Congress, Subcommittee on Oversight of the Committee on Ways and Means, House of Representatives, 96th Congress, First Session. Hearings on Review of Student Benefit Program. p. 1.
- ¹⁴Op. Cit., p. 31.
- ¹⁵Op. Cit. p. 72
- ¹⁶Op. Cit., p. 100.
- ¹⁷Op. Cit. p. 62.

¹⁸Op. Cit., p. 40

¹⁹Op. Cit. p. 114.

²⁰Op. Cit., p. 46.

²¹Op. Cit. p. 87.

²²Op. Cit. p. 84-85.

²³Op. Cit. p. 73.

²⁴Op. Cit., p. 92-93.

²⁵Op. Cit., p. 19.

²⁶Op. Cit., p. 66.

²⁷Op. Cit., p. 7.

²⁸Op. Cit., p. 64.

²⁹Social Security Bulletin. Vol. 44, No. 10. October, 1981. p. 5.

³⁰U.S. Congress Subcommittee on Oversight of the Committee on Ways and Means, House of Representatives, 96th Congress, First Session. Hearings on Review of Student Benefit Program. p. 146.

³¹U.S. Congress Committee on Ways and Means, House of Representatives, Subcommittee on Social Security Financing Recommendations. Hearings on Social Security Financing Issues. May 28, 1981. pp. 44-46.

³²Cohen, Wilbur J. - personal interview 4/16/85.

³³Ibid.

BUDGETARY ISSUES

Two separate budgetary issues are raised by the student benefits program , both suggested previously by Wilbur Cohen:

- 1) Interfund borrowing among the Social Security Trust Funds
- 2) Placement of Social Security in or out of the Federal budget.

In the first, interfund borrowing involves the separate trust funds established by Social Security (OASHDI):

Old Age	OA - retirement of contributors (to the social security funds)
Survivors	S - families of deceased contributors
Disabled	D - disabled contributors or their family members
Health Ins	HI - Medicare

Some funds are less depleted than others during any point in time due to economic and demographic changes in the population of the United States. The concept of interfund borrowing allows transfer of resources between the funds under the umbrella of Social Security. Provision for repayments back to the funds are written into legislation authorizing such transfers.

The Social Security financing issue became an important policy area in 1981. In that year, various benefits (including the student benefit) were cut by the OMBRA, and at the end of the year authority was given for the trust funds to borrow from one another, but only until the end of 1982. The borrowing could not exceed the amount needed to assure benefit payments beyond June, 1983. In order to reach a consensus on solutions to the financing problems of Social Security's cash benefit programs (i.e. OASHDI), President Reagan and Congressional leaders formed a bipartisan panel, the National Commission on Social Security Reform. In January, 1983, a substantial majority (12 of 15)

of the Commission reached agreement on a compromise package of revenue measures and benefit cuts. The Commission submitted its recommendations on January 20, 1983. The report favored interfund borrowing, according to Geoffrey Kollman of the Congressional Research Service, would have minor financial effects.¹ The sanction would allow interfund borrowing from HI by OASDI for 1983-87. The administration included the Commission's recommendations in its FY84 Budget proposals. As considered in the House, the bill reported out of committee permitting interfund borrowing among the OASI, DI and HI Trust Funds through 1987 (with repayments to be completed by the end of FY89. The Senate bill provided for crediting the trust funds at the beginning of the month with amounts representing the expected social security tax receipted for the month, but unlike the House bill, only if Trust Fund reserves fell below 20% of one year's outgo. Comparison of the two bills reveals that the Senate formula would have made it a General Fund transfer (in effect a loan from the General Fund) when social Security Trust Fund reserves were low. The resulting legislation, PL 98-21, contains the following provisions:

- 1) Interfund borrowing is authorized among the OASI, DI and HI funds through 1987, with repayments to be completed by the end of 1989. However, interest would be paid monthly to HI on any outstanding loans to OASDI: further, OASDI cannot borrow from HI in any month in which the HI Trust Fund ratio is under 10% (with no more to be borrowed than would reduce the ratio to 10%).

- 2) In 1983-87, OASDI will repay loans from HI whenever the OASDI fund ratio at the end of the year exceeds 15%.

- 3) In 1988-89, OASDI will repay HI, in 24 equal monthly payments, the loan balance outstanding at the end of 1987 (plus interest on any outstanding loan balance.) Faster payments are authorized. Similar

protections will be provided for the OASDI and DI Trust Funds in the event that HI were to borrow from OASDI.

In a June, 1985 report on the actuarial status of the Social Security Trust Funds² Harry C. Ballantyne, Chief Actuary of the Social Security Administration, determined that the DI program could become unable to pay benefits on time by the end of 1987, but this problem could be prevented by a reallocation of contribution rates between the OASI and DI programs. He stated that the trust funds serve as a contingency reserve. During periods when outgo temporarily exceeds income, trust fund assets are used to meet the shortfall. In the event of recurring shortfalls, the trust funds can allow time for legislation to be enacted to restore balance to the program. The assets of the Trust Funds are invested in U.S. Government securities bearing interest rates similar to those for long-term securities issued to the general public. The law also permits limited interfund borrowing among the OASI, DI, and HI funds through 1987; such loans were made in 1982 from DI and HI to OASI. They must be repaid with interest before 1990.

The outgo of the OASDI Trust Funds consists of benefit payments and administrative expenses. Trust Fund assets may not be used for any other purposes.

The first repayments of the amounts lent to the OASI Trust Fund in 1982, under the interfund borrowing provisions, were made on January 31, 1985. Of the \$5,081 million owed to the DI Trust Fund before the repayment occurred, \$2,540 million was repaid; of the \$12,437 million owed to the HI Trust Fund, \$1,824 million was repaid.

Returning to the point in time during which interfund borrowing was just being contemplated, some conflicting perspectives were to be found.

Robert M. Ball, of the Institute of Medicine, National Academy

of Sciences states his viewpoint on interfund borrowing: "I was Commissioner of Social Security, serving under Presidents Kennedy, Johnson and Nixon. I am the author of Social Security Today and Tomorrow published by Columbia University Press and was a member of the most recent statutory Advisory Council on Social Security ... Interfund borrowing would seem to be an obvious, simple and non-controversial step ... Under the Congressional Budget Office assumptions, a minimal approach to solving the short-term deficit problem would call for not only interfund borrowing but authority to borrow from the General Fund, at least for the short term, on a limited basis. This is a completely feasible approach because, in general, conditions over the next 25 years are quite favorable to Social Security financing. During this period the large number of children born in the period from 1940 to 1970 -- the "baby boom" -- will be paying into the Social Security system and offset the increase in the number of people over 65. In other words, the relationship of payers-in to takers-out of the Social Security system remains relatively stable over the next 25 years."³

In the same hearing, David Stockman, Director of the Office of Management and Budget said, "Drawing reserves out of the HI Trust Fund to mask OASDI deficits would be worse than simply robbing Peter to pay Paul." However, on June 2, 1981 before the Task Force on Social Security and women of the Select Committee on Aging, Deputy Commissioner of Social Security, Robert J. Meyers testified that the administration favored interfund borrowing.⁴

The second policy issue to be considered, the placement of the Social Security Administration budget in or out of the Federal budget, has much more widespread implications. In a letter from the Committee on the Budget of the U.S. Senate, dated December 4, 1984, Mr. Gilbert Gude of the Congressional Research Service and Pete V. Domenici,

Chairman of the Committee of the Budget stated, "Although the Social Security Amendments of 1983 placed the system on solid financial ground well into the next century, the dramatic increase in the Federal deficit has focused attention once again on this huge program. Just last summer, for example, several Senators offered budget reduction plans which would have slowed the growth in the Social Security program. It is likely that other proposals will be made during debate on the budget this year in light of continuing high Federal deficits. This Committee, while it may not favor such proposals, must be prepared to consider them.⁵ In the report, Mr. Gude noted that in FY84, tax revenues received by the Social Security Trust Funds (OASDI) were \$167 billion and represented twenty-five percent of all Federal revenues. Capital outlays for the program were \$178 billion, representing twenty-one percent of total Federal spending. Because the Social Security program is so financially significant, it is frequently brought up in discussions of how to reduce Federal budget deficits and control the growth of entitlement programs.

The most important factor in this issue is the fact that Social Security is mainly self-financed. This brings up the question of whether it should be considered in discussions of how to resolve overall budgetary problems, particularly when its internal financing appears adequate.

As reported by Robert M. Ball in Hearings on Social Security Financing Issues held by the Ways and Means Committee of the House of Representatives,⁶ the Statutory Advisory Councils of 1975 and 1979 and the National Commission on Social Security all (and by "all" it is meant a majority not just of the councils themselves, but a majority of the representatives of business, labor and the public) came to a consensus that, "social security policy ought **not** to be made as a part of short-term budget policy, that cuts designed to bring the unified

budget into balance are not the appropriate way, in the view of these groups, to make policy in a system where rights are based on past earnings and contributions, and where the commitments are for the long term.⁷

From all degrees of the political spectrum, the members of these groups agreed that Social Security had a special place in Government programs, growing out of its nature as a social insurance program, and that the competitiveness of a year-by-year budget decision was not appropriate to policy decisions affecting it.

Mr. Ball stated, "On the short-term financing problem, Mr. Chairman, I think it is important to review quickly why the old age and survivors fund is in difficulty at this time. It grows out of recent and present economic conditions. It is not a matter of demography, as it is sometimes said to be in the press. The short-term situation is entirely the result of the fact that for the last couple of years, and perhaps for two or three in the future, this is basically a pay-as-you-go system, which is a percentage of payroll, has been less than expected, whereas the increase in benefits which are related to the cost of living have been more than expected."⁸

Labeled "the politically volatile Social Security program" by the Washington Post,⁹ the program can affect the amount the Government spends, taxes or borrows whether or not it is officially counted in the budget, even though it has its own revenues and trust fund accounts, according to David Koitz, Specialist in Social Legislation in the Education and Public Welfare Division of the Congressional Research Service.¹⁰ The financial operations of Social Security have been part of every Federal budget since 1969. The concept of a "unified" budget was implemented that year, and again the approach is visible in another form in the Congressional Budget and Impoundment Control Act of 1974, setting

annual spending and revenue goals for the Government. However, subsequent controversy over whether Social Security is suffering cutbacks due to budgetary pressures prompted Congress to pass a measure in 1983 that will remove the program from the Federal budget beginning in FY93.

Even though Social Security was not part of the Federal budget prior to 1969, it did affect the financial affairs of the U.S. Government, and has done so since the inception of Social Security taxes in 1937. This is because any Social Security tax revenues not needed to meet the immediate costs of the program are automatically invested in U.S. Government securities. Essentially, excess receipts are loaned to the General Fund of the Treasury and are available for general governmental use. Uses can include increased spending for other governmental programs, reduction of taxes or borrowing. If Social Security tax receipts do not meet the immediate costs of the program, the government is obliged to repay some of the loans made previously. If the Government is concurrently running a financial surplus with its other activities, it can repay the Social Security Trust Fund loans only by reducing spending on the other programs, raising taxes, or borrowing more funds from the public. Essentially, although a law exists stating that Social Security will be removed from the formal budgetary process, it will actually continue to affect the finances of the Government in one way or another except in the rare circumstance of its outlays being exactly matched by the revenues the Government receives on its behalf. Removing Social Security from the budget reflects the prevailing popular view that overall budgetary limitations should not be the basis for altering the provisions of the program and does create procedural hurdles in the legislative

process for doing so. However, Social Security has and will continue to influence what the limitations are. Social Security indirectly affects the amount of funds the Government has available to spend or must raise through taxes or public borrowing in order to function, regardless of whatever formal relationship exists with the budget.

It can be seen, then, that Social Security is not a completely separate function of the Government. The Government is not simply an agent administering an insurance policy. Social Security taxes do not flow into special accounts kept completely separate from other Treasury receipts. The taxes are not used exclusively to meet the costs of the Social Security program. The program cannot be kept totally separate of the Federal budget because the receipts and expenditures it makes are Federal ones. Social Security taxes are Federal taxes, authorized under the Internal Revenue Code and the benefit checks are disbursements from the Treasury Department. Further, the Supreme Court has ruled that the program's provisions are not like those of an insurance contract. Congress has the authority to unilaterally alter Social Security's financing and benefit provisions, if it should so decide.

When Social Security was brought into the official Federal budget in 1969, the Trust Funds were not merged with the General Fund of the Treasury. In fact, the financial operations of the U.S. Treasury, which accounts for trust fund receipts and expenditures separately from other Federal money, were not altered at all. The shift to a "unified budget" was a cosmetic change in bookkeeping methods. The new method simply showed a different summary of the receipts and expenditures.

The bookkeeping for Social Security was not changed by unifying the budget. There is some truth to the perception that Trust Funds are mingled into the General Fund. However, this is not due to using a unified budget format. It is due to investment policies adopted by Social

Security. Resources not needed for Social Security at the time are invested in Federal securities. The money used to purchase the securities is deposited into the General Fund and then used to help meet other immediate Governmental expenses. In effect, a loan is made from one arm of the Government to another. The Treasury Department repays the loan at a later date by redeeming the securities.

Social Security Trust Fund accounts have shown surpluses in 36 of the 48 years in which there were taxes, but not all of the income posted to them came from Social Security taxes actually received by the Government. Part of the income came from the General Fund, interest on the Federal securities credited to the trust funds, the Government's share of the Social Security taxes as the employer of military and other personnel covered by Social Security and various other credits to the trust funds from the General fund account for the difference between what actually has been paid into the Government in Social Security taxes and amounts recorded on the Trust fund ledgers. These other postings have helped maintain a favorable balance in the Trust Fund accounts, but they have not been sources of revenue for the Government.

Of the 48 years, the Government actually received excess Social Security taxes in only 25 years, and those years were mostly in the early portion of the program, between 1937 and 1957. Since 1957 Social Security taxes paid to the Government have exceeded expenditures in only four years. In 40 of the 48 years, 1937 through 1984, the Government ran budget deficits and had to borrow from the public to sustain itself.

Total expenditures over the history of the program have exceeded the amount of tax revenue by \$83 billion. That is to say, \$83 billion of the program's expenditures were not financed with Social Security taxes collected by the Government. This is about one-twentieth of

the total program. Essentially, although when viewed from the Trust Fund perspective, it appears that a favorable balance has been maintained between Social Security income and outgo, this balance has been accomplished in part via transfer of funds from the General Fund, which has not maintained a balance between **its** income and outgo.

The pattern of Social Security augmenting budget deficits (1971 - 1984) is expected to change in the next few years because of a projected expanding economy and amendments to the program enacted in 1983 which raise the Social Security tax base and tighten expenditures. The pattern of Social Security spending outweighing receipts appears to have peaked in 1983 when the spending excess amounted to \$23 billion. The ratio of taxes received to program expenditures is expected to be about equal in 1985 and 1986. Assuming no major recession, the trend of receipts becoming larger than expenditures should take over.

Substantial Social Security tax increases for 1988 and 1990 are planned, and favorable demographic factors include the post World War II "baby-boom" generation reaching its peak production years as well as the "baby-trough" generation of the 1930's nearing retirement. In the next few years a significant recession could offset the projection of excess receipts, but a surplus should arise in the next decade (barring legislation lowering taxes or reallocating them, for example to Medicare).

It is seen from the above discussion, that removing Social Security from the Federal budget has the effect of allowing Congress to choose not to make changes in the program in determining how to reach certain budgetary goals, such as reducing Federal deficits and the public borrowing that comes with them. However, any excess income collected by the Government for Social Security will influence how much change is

required in the taxing, spending and borrowing policies that affect the other functions of the Government. Thus, Social Security can be exempted from budget cuts or revenue raising actions, but it will still strongly affect Government finance.

- ¹Kollman, Geoffrey. Social Security: Taxing Benefits. Congressional Research Service. Archived 4/1/85, Updated 6/18/85.
- ²Ballantyne, Harry C. "Actuarial Status of the OASI and DI Trust Funds." Social Security Bulletin. Vol. 48, No. 6. June, 1985.
- ³U.S. Congress. Committee on Ways and Means, Subcommittee on Social Security. Hearings on Social Security Financing Recommendations. May 28, 1981. p. 90-91.
- ⁴U.S. Congress. Committee on Ways and Means, Subcommittee on Social Security. Hearings on Social Security Financing Recommendations. May 28, 1981. p. 92.
- ⁵Congressional Research Service. Constraining Social Security Cost-of-Living Adjustments: Background and Issues. Report for the Committee Committee on the Budget of the United States Senate. January, 1985.
- ⁶Ball, Robert M. U.S. Congress Committee on Ways and Means, House of Representatives, Subcommittee on Social Security Financing Recommendations. Hearing: February 18, 1981. p. 104.
- ⁷Emphasis by author, not in original.
- ⁸Ball, Robert M. U.S. Congress Committee on Ways and Means, House of Representatives, Subcommittee on Social Security Financing Recommendations. Hearing: February 18, 1981. p. 105.
- ⁹Rich, Spencer. "President's Fiscal Plan Restructured: Hill Conferees Reorder Reagan Spending Plan." The Washington Post. August 2, 1985. pp. A-a, A-3.
- ¹⁰Koitz, David. Congressional Research Service. Social Security and the Federal Budget. January, 1985.

CONCLUSION AND POLITICAL IMPLICATIONS

The 1981 student benefits were a tiny portion of a huge program. The Social Security program was in turn a part of the HEW bureaucracy, the third largest budget in the world (surpassed only by the budgets of two nations, the United States and the Soviet Union) according to Joe Califano.¹ Although intended to widen and deepen the political support bases for Social Security, the student benefits program was ineffective. It was passed into law just after the civil rights upheaval when, according to Nancy Amidei, Visiting Professor, University of Michigan School of Social Work², the time was right for expansionary programs. It slid into law uneventfully. It was evaluated during its existence for mismanagement and duplication of benefits. In a program of this small size, these problems, if in fact real, were not considered to be of great enough magnitude to warrant discontinuing the program. Few changes were made and it was a target for cuts a number of times. However, in a recessionary period when political and economic times had turned, it was sliced from the program almost without a second thought. Other educational programs were not strengthened in order to provide more cost-effective student aid.

Although the program was relatively insignificant in size, the political implications are significant. It points out clearly, according to Ms. Amidei, that "in terms of advocacy, unless someone really stands up, a little program will disappear when a President announces a special interest. Unless it's [someone's] special interest, there is no reason for someone else to look out for it."³

Intended to build up the political base for Social Security, the program itself had a very narrow base (the program could be accessed

by children of retired, disabled or deceased parents, children between the ages of 18 and 22 who happened to want to go to college.) The program was described by Ms. Amadei as "a small potato." During a period of national economic stress it was sliced from the Act without notice, being a vehicle for a new president to accomplish his campaign promises.

Writing in a recent edition of Social Work, June Gary Hopps remarks, "The government's retrenchment from responsibility to social welfare strikes an ironic counterpoint to the fiftieth anniversary of social security and reverses a half century of legislative efforts to moderate the more negative effects of a market-based economy."⁴

Budgetary ramifications of a tiny program such as this one are fascinating. As the previous discussion has shown, the ongoing debate of whether Social Security should be included in a unified Federal budget is actually nearly a moot point, as the taxes collected by Social Security have influenced, currently influence, and will continue to influence the General Fund, regardless of the placement of Social Security relative to the Federal budget.

¹Califano, Joseph A., Jr. Governing America: An Insider's Report from the White House and the Cabinet. Simon and Schuster, 1981: New York. Jacket.

²Amidei, Nancy. Personal interview 4/12/85.

³Ibid.

⁴Hopps, June Gary. Social Work. Vol. 30, NO. 6. November-December, 1985. p. 467.

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ATTACHMENT A

6128 E. Atherton
Burton, MI 48519
April 11, 1985

Professor Wilbur J. Cohen
Visiting Scholar
LBJ School in Public and National Affairs
University of Texas
200 E. First
Austin, TX 78712 512 471 4952

Dear Professor Cohen,

As a University of Michigan M.S.W. candidate, I am participating in a special seminar class being presented by John Tropman to commemorate the fiftieth anniversary of the Social Security Act. I am researching the post-secondary student benefits portion of the Act.

Because this is one of the very few Social Security programs having both dates of origin and conclusion, I started with legislative histories, and was very pleased to find the excellent one done by yourself and Mr. Ball tracing the implementation of the 1965 Amendments. I have researched the elimination of the program through the Omnibus Budget Reconciliation Act of 1981.

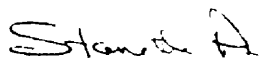
It appears that this benefit was a relatively minor one, with a small political base, slid through when the political and economic climate was favorable and eliminated in about the same manner (although hearings were conducted in 1979 at the suggestion of the GAO which advocated eliminating the program. I would be very interested in your comments on the following:

1. How does the mismanagement of the Student Benefits Program (duplicate and overpayments, for example see charts 19,20,21 attached) compare with mismanagement in other governmental and Social Security programs in particular to merit discontinuing the program?
2. Do you feel that secondary education benefits are correctly placed in a basic income support program, i.e., should they be "insured"?
3. Do you prefer a student benefit program having a means test as do the BEOG, Work Study, NDSL, GSL and state programs?
4. Do you agree with the elimination of the benefit or not?

I will call your office on Tuesday, April 16 to either contact you personally if you are available, or to set up a time with your secretary which would be comfortable for you for a short telephone interview.

Thank you very much for your time and thoughts on this issue.

Sincerely,



Stanette Amy

Enclosure

APPENDIX I.

FINANCIAL ASSISTANCE FROM THE OFFICE OF EDUCATION

Basic Grant (BEOG) The Basic Educational Opportunity Grant program is an entitlement program. Awards are made to students based on financial need. The maximum award in 1979 was \$1,800.

Guaranteed Student Loan (GSL) Undergraduate students, regardless of income, could borrow up to \$2,500 per year. The Federal Government pays the interest on the loans while the student is in college. Once the student completes his or her education, the loan rate is seven percent. The program operates with capital provided by banks and private lending institutions.

National Direct Student Loan (NDSL)

College Work-Study

Supplemental Educational Opportunity Grant (SEOG)

All these programs are referred to as the campus-based programs. Under campus-based programs, funds are allocated to the colleges and universities to be distributed to students. Student awards are made on the basis of need.

BASIC CONCEPT: The basic concept underlying all these programs is that parents are primarily responsible for the student's postsecondary education and are expected to make a significant monetary contribution toward it. These programs are all means (needs) tested.

This basic concept differs from the Social Security philosophy where the family's ability to pay is not taken into account. That program is, rather, considered an income support for the family in cases where a wage-earner has lost his/her earning power due to disablement, retirement or death.

APPENDIX II.

**STATEMENT OF CHARLES B. SAUNDERS
DIRECTOR OF GOVERNMENTAL RELATIONS
AMERICAN COUNCIL ON EDUCATION**

**U.S. Congress: House of Representatives
Ways and Means Subcommittee on Oversight
Review of Social Security Student Benefit Program
February 8, 1979**

It is also true, however, that the majority of these students come from families which would otherwise have serious difficulty in meeting the costs of their education. Two out of three are from families with incomes below \$15,000 a year. The median adjusted gross income of beneficiary families is seventy-five percent of the median income for all families with children in college.

Here is what happens. Take the case of a working widow with one child in college, one at home earning \$6,000 a year. This is a fairly typical case. Sixty percent of the beneficiaries under this program are children of deceased workers, and some roughly thirty percent of the beneficiaries have family incomes under \$6,000.

Assuming that by 1980-81 the average social security educational benefit will be \$2,300 a year, the family in this particular case would have a total income of \$8,300 to help meet family expenses while the student is in college. By virtue of the basic grant needs analysis process, taking into consideration the total family income, the student in this situation would be eligible for a \$1,700 basic grant.

If the administration proposal was adopted and the student entered college next year, the family's income would be reduced by \$2,300. But this reduction in income would only increase the basic grant received by the student by \$100.

In other words, the administration would reduce this very poor family's income by a total of \$2,200.

A second example: The combined income of a working wife and husband who is retired is \$12,000. Their son is ready for college and qualifies for a \$2,300 benefit from social security and a \$1,000 basic grant. If the administration withdraws the social security benefits from this family, the son's basic grant would only increase by \$250. So, the family would suffer a net loss of \$2,050.

A final example: A working wife who supports her disabled husband and two children on \$18,000 a year. A daughter enrolled in college qualifies for an \$800 basic grant in addition to the social security benefit of \$2,300.

Without the social security benefit, the basic grant award would rise to \$1,020, leaving a net loss of \$2,080 to this family.

In summary, it is not true that a family affected by loss of social security educational benefits would have their needs met by existing student aid programs, as the administration has rather glibly explained. On the contrary, they would have their resources significantly depleted--critically depleted in the case of most beneficiary families' ability to meet the cost of postsecondary education.

Obviously, the loss of these benefits would substantially increase the demand for basic grants and for the other existing student aid programs--supplemental grants, work study, loans, and so forth--but this increased demand is not recognized in the administration's estimate of savings, nor in the administration's fiscal 1980 budget request for these programs.

Taken from Hearing testimony, pp. 92-93.