65 is a complicated and ambivalent approach to this problem. It presents a policy issue that has never been fully resolved.

The OASDHI financing system also has impacts on the Government bond market and debt operations. To the extent that trust fund expenditures exceed receipts and require liquidation of some Government bonds during a period of economic slowdown, or the receipts exceed expenditures and require purchases of Government bonds during an upswing, the program may accentuate cyclical movements in the money markets. Sales of bonds, for example, decrease supplies of loanable funds and push up interest rates; purchases of bonds have the reverse effect. These effects can be, and probably are, offset by monetary policy, but they add to the task of monetary policy.

In its earliest years, the old-age system began accumulating a sizable balance while paying few benefits. This exerted a deflationary influence and was held by many analysts to have intensified the depression of the late 1930's. The large-reserve plan was soon modified; since 1940 annual increments to the fund balance have been comparatively limited. The largest appear to have been $1.9 billion in each of the calendar years 1950, 1952, and 1954. During this period, 1950–54, the fund balance grew from $12 to $21 billion.

During 1958–65, the combined OASDI funds had disbursements exceeding income (including interest income) in 4 of the 9 calendar years—1959, 1961, 1962, and 1965. The largest year-to-year reduction in combined balances was $1.5 billion in calendar 1962, and the next largest, $1.3 billion, in 1965. In the fiscal year 1966, there was a reduction of $629 million. For the fiscal year 1967, the budget indicated that these trust funds (omitting the new hospital and health insurance funds) would increase their assets by an estimated $1.4 billion, out of total receipts of more than $23 billion. The fund trustees indicated in their 1966 annual report that the fund balances, estimated under present law, will increase in the fiscal year 1970 by $5 billion, to a total balance above $31 billion. The $5 billion addition to reserves would equal more than one-sixth of the annual income of the funds.[39] Whether this large a prospective addition to reserves will create avoidable monetary or fiscal problems in 1970 is a question that merits close evaluation. It may have consequences for policy in these fields.

The agency statement notes that if inflationary tendencies develop in the next few years, the operations of the OASDHI system will tend to offset them. It adds that the effect of the OASDHI program is only a small part of the inflationary or deflationary effect of Federal Government operations on the economy. This, of course, is generally correct, though even the incremental amounts involved in these operations are not small by any standards. The real problem, in any event, is to achieve consistency—to mesh the fiscal effects of the social security programs with those of other Government programs, so that they will move together in the needed direction at the proper time and in appropriate degree.

In addition to direct benefits to the recipients and the economy at large, the OASDHI program is credited with indirect benefits in the form of savings in other programs. An outstanding case is the decline in the number of old-age assistance recipients from a peak of 2.8

[39] "The 1966 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds," Feb. 28, 1966 (89th Cong., 2d sess., H. Doc. 392), pp. 3, 26, and 30.