When Congress Killed Private Accounts

By K. Daniel Glover

Republicans who see personal retirement accounts as the salvation for Social Security have a new hero these days: Franklin Delano Roosevelt, the father of the program himself. Back in 1935, the Democratic president proposed that a government-run retirement system should include "voluntary contributory annuities by which individual initiative can increase the annual amounts received in old age." Republicans tout that statement as an early endorsement of personal retirement investments, like the kind President Bush now advocates.

But Republicans don't mention what happened to FDR's idea: The plan died quietly in Congress 70 years ago because few lawmakers in either party supported it, the insurance industry opposed it, and Roosevelt didn't fight for it.

Roosevelt advocated old-age insurance as part of a broader effort to ensure economic security. His proposal was three-pronged: welfare pensions for the elderly; mandatory payroll deductions and retirement payouts for workers (the linchpin of Social Security today); and a voluntary program to let people buy government certificates and convert them into annuities upon retirement.

FDR's voluntary annuities program was not designed for everyone. It was aimed at farmers, the self-employed, housewives, and others—an estimated 22 million Americans—who fell outside the other two parts of his plan. Although workers who paid payroll taxes could have boosted their retirement income by buying extra annuities, they were not the targets of the voluntary program.

"The primary purpose of the plan is to offer persons not included within the compulsory system a systematic and safe method of providing for their old age," Roosevelt's Committee on Economic Security wrote in a 1935 report (available at *www.ssa.gov/history*) that served as the genesis of debate.

The committee emphasized that all facets of the plan were complementary, and Edwin Witte, the panel's executive director, reiterated that view in congressional testimony. But Democrats in Congress gave greater weight to the welfare pensions and mandatory contributions, with Rep. Frederick Vinson, D-Ky., calling the latter provision "the heart and soul" of Social Security.

A LOOK BACK AT THE 1935 DEBATE OVER FDR'S SOCIAL SECURITY PLAN IS QUITE REVEALING.

The House Ways and Means Committee quickly registered its distaste for voluntary annuities, striking that title from the Social Security bill, and lawmakers barely mentioned the issue during the 10 days of House floor debate. When the legislation moved to the Senate Finance Committee, Rep. David Lewis, D-Md., urged the resurrection of the voluntary annuity plan, and the panel obliged. The committee's endorsement was hardly a ringing one, though: The vote was 7-5, with nine members not even present.

Congress's general lack of enthusiasm for voluntary annuities surfaced again on the Senate floor. On the one day that the chamber addressed the issue, Sen. Edward Costigan, D-Colo., voiced regret "that the importance of this question is not being given attention by a larger present representation of the Senate." And the senators who were there were none too fond of the idea.

Sen. Augustine Lonergan, D-Conn., led the assault. Finance Committee Chairman Pat Harrison, D-Miss., had agreed to let him try to strike voluntary annuities from the bill, and Lonergan seized that as an opportunity to voice the insurance industry's opposition.

Witte of FDR's Committee on Economic Security had contended that the insurance industry would not object if the government got into the annuity business for retirees. Likening the proposal to the government-run life insurance plan created for soldiers during World War I, he said that just as the industry would not offer such policies, it would not sell retirement annuities in the small increments envisioned by FDR.

But Lonergan disputed that argument. He cited letters from three insurance companies that said they sold such annuities. Connecticut General Life Insurance urged the elimination of the voluntary retirement annuities "because the few who will purchase the annuity bonds will most likely be individuals who can be taken care of by the insurance companies."

"Is the United States Senate going to reinsert in this measure a section which was stricken out by the House and which never should have been there in the first place?" Lonergan asked on the Senate floor. The chamber answered by voice vote, purging voluntary annuities from the legislation for good. The Roosevelt administration apparently did not consider it a priority and failed to work hard to save it, according to a 2001 research paper by Social Security Administration historian Larry DeWitt.

Robert Ball, who headed the Social Security Administration from 1962 to 1973, said in an interview that Republicans who hark back to FDR's endorsement of voluntary annuities are "really digging when they try to bring that up as a precedent" for Bush's personal retirement accounts.

But if FDR's voluntary annuities remotely resemble today's proposed accounts, perhaps Republicans can take solace in the words of another Democrat, Vinson, who became Treasury secretary in 1945. Although Vinson saw no "particular need" for voluntary annuities in 1935, he said this on the House floor: "Many of us think the time will come when the voluntary annuity plan, which rounds out the security program for the aged, will be written into law." ■

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