

There is practically universal agreement that the OASDHI program results in a redistribution of income. Income is transferred from those with current earnings to those with little or no earnings, from producing to nonproducing groups. With respect to an individual, income is transferred from periods when he is earning to periods when his earning capacity is eliminated or reduced. To the extent that these income transfers are offset by shifting of employer payroll taxes to consumers in the form of higher prices, the apparent redistribution is reduced, but such shifting is unlikely to eliminate income redistribution.

OASDHI benefits thus cannot be considered as entirely a net addition to the aggregate incomes of the beneficiaries, because of the possible shifting of payroll taxes forward to consumers and, in addition, because of the probability that beneficiaries would have other, however inadequate, sources of income in the absence of OASDHI. To the extent that relatives of beneficiaries do not need to support aged or otherwise dependent relatives because of OASDHI benefits, their standard of living is, of course, improved. Furthermore, no other source provides the kind of assured and continuing flow of income to beneficiary families, or the adjustments of benefit amounts to changing per capita income levels, that are characteristics of a broad social insurance program such as OASDHI.

The limit on taxable earnings under OASDHI does reduce the extent of the transfers from upper-income groups to other segments of the population. This limit and the absence of exemptions have the net effect, according to Margaret S. Gordon,¹ that OASDHI probably transfers income primarily from middle-income groups to lower- and lower-middle-income groups. One study which supports this generalization was made by Carroll.² Using 1958 data he arrives at an estimate that the OASDHI program resulted in a transfer of \$4.5 billion from expenditure units with incomes of \$3,000 or more to those with incomes of \$3,000 or less. The largest shift, Carroll estimated, was from the \$3,000 to \$7,499 group to the \$1,001 to \$1,999 group, amounting to some \$2.5 billion. There were, however, serious limitations on the methodology and assumptions underlying this study so that it should be regarded as suggestive rather than conclusive.

(b) *Effects on placement or productivity of workers, or both, and on their earnings.*—The effect of the OASDHI program has probably been to increase labor productivity, although there is no conclusive evidence that this is so. The knowledge by a worker that he will at least not face destitution in old age or if he becomes totally disabled, and that his family will not completely lack income if he should die, probably increases his sense of security and his efficiency. There is no evidence, at any rate, that the type of insecurity which the OASDHI program obviates contributes to higher productivity.

OASDHI may have contributed to improving productivity, according to Margaret S. Gordon,³ through shifts in the structure of the labor force. In this interpretation, the decline in the labor-force participation rate of elderly men since 1940 is attributed, at least in part, to the availability of retirement benefits.

¹ Margaret S. Gordon, "The Economics of Welfare Policies," New York and London, Columbia University Press, 1963, p. 44.

² J. J. Carroll, "Alternative Methods of Financing Old-Age, Survivors, and Disability Insurance," Ann Arbor, Institute of Public Administration, University of Michigan, 1960. See table 22, p. 99.

³ Op. cit., pp. 31-40.