

i.e., the benefits and years of service requirements written into law. Third, the employment relationship itself is a device of only incidental significance to the goal of taking care of the aged; it is the absolute level of benefits which is of critical importance, not the limits on a payroll tax or the actuarial computations as to projected returns for contributions by the mythical "average" employee.

The essence of the Social Security system.—Whether or not one accents in whole the theory posited above—intended by the author of the congressional study simply to raise some questions—there are some facets of the system upon which there can be general agreement. First, the system relies on the pay-as-you-go approach as contrasted to a funding arrangement. In effect this means actuarial soundness *must* be achieved only on a short run basis: i.e., tax revenues collected this year must be sufficient to pay promised benefits for the current year. When the plan is projected into the future, there is an immediate imponderable; namely, the attitude of Congress which has consistently increased benefit payments—and, as a consequence, tax payments—in the system ever since it was first established. In short, this pay-as-you-go approach depends upon short-range soundness; its long-range position is based on congressional intentions.

Second, OASI, in concept, provides both a floor in terms of a minimum subsistence benefit and a schedule of benefits designed to replace some fraction of earnings for the beneficiaries of the system. With respect to the replacement aspect, the system provides disproportionate benefits for the lower-paid as contrasted with higher-paid employees. Thus, when viewed in the context of a pure replacement of income scheme, Social Security "discriminates" in favor of these lower-paid employees.

Mr. Byrnes. In other words, on the theory that if I am going to be asked to pay for a tax today for a benefit that is available to people over 65, then when I get to be 65 somebody who is then working ought to do the same thing for me? Is that it?

Mr. Myers. Yes; I would say that is the way it is, and this is a reasonable group prepayment basis, I think you can call it, because of the compulsory nature of the tax for now and for all time to come on people in covered employment.

Third, the payroll tax device is a technique to tie the benefits to periods of gainful employment. Justification for this normally includes the following reasons:

1. The tax encourages fiscal responsibility on the part of people who are eligible for the benefits.
2. It appears to be an essential element in a system that relates benefits to earnings and bases the right to benefits on the performance of work.
3. The payroll tax makes available to the program a source of financing related directly to a benefit weighted in favor of the low-income taxpayer and visible in terms of its relationship to a contribution to the system.

The maintenance of the purity of the payroll tax device turns on the relationship between work and earned benefits. Based on the 1965 amendments and assumptions similar to those underlying the suggestions in Announcement 66-58, if we project we can see at least some individuals contributing more than they can presently expect in benefits in return. Should this occur, the justification for the system then, as noted earlier, must be in part that the program is a public assistance program, and total reliance on a payroll tax would no longer seem to be a key part of the rationale.

Fourth, a common view of the Social Security program, as noted above, is that it is a basic building block or cornerstone for old-age security. As stated by Wilbur J. Cohen, the then Assistant Secretary of Health, Education and Welfare, before congressional hearings:

"... [T]he concept underlying the philosophy of social security is that it is basic protection to which individuals, employers, unions, private people, can add or should supplement with such additional protection as they wish.

"... The concept ... is that you provide x dollars for old-age retirement, then a private employer adjusts his private retirement system to be on top of that. The private pension is the second layer. The third layer is whatever the individual wants to do on his own."³

This concept is significant in the present context in the sense that government at least anticipates that the normal response of employers will be to integrate—in the nontechnical sense—private plans with the public one.

³ House Ways and Means Committee Executive Hearings on Medical Care for the Aged, 1st sess., 89th Cong. (1965), part 1, p. 31.