

conomic growth. The above are the relevant considerations to be taken into account in planning and financing a social security program.²⁰ They raise difficult conceptual and pragmatic problems for overall Government economic policy—problems for which the precepts of private insurance are not relevant.

However, not all the implications of the insurance concept of social security are irreconcilable with the simple economics of the program. Consider, for example, the basic issue of whether social security benefits can be regarded as an earned right by recipients. If, in return for his own contributions to the social security funds an individual does not earn a *quid pro quo* in the private insurance sense, he does earn a *quid pro quo* in a sense that is, perhaps, even more fundamental. Since he gives up part of his earnings during his own working life to support the aged during their retirement, he has a strong moral claim to similar support from future working-age generations during his own retirement. Under social security, the individual has *moral* rights rather than *legal* rights.²¹ In this sense, the benefits are earned rights, but the validity of this proposition does not in any way depend upon the insurance analogy.

The practical importance of discarding the insurance analogy is not to discredit the concept of social security, but rather to dispel basic misconceptions about certain aspects of the OASDI program. Once the insurance analogy is seen to be false, the social security "contribution" must be regarded as a tax, not an insurance premium, nor, indeed, as a "contribution" in the generally acceptable sense. The financial interchange between generations does not depend on the existence of a particular tax—the payroll tax. It arises because each generation of workers undertakes to support the eligible nonworking population and implicitly expects similar treatment.²²

Social security payroll taxes are legally earmarked, but they are not *economically* earmarked. Congress and the President jointly have total discretion about which kinds of taxes (including those on payrolls) shall be used to pay for whatever expenditures they jointly conclude are worth making. If Congress should decide to end the earmarking of the payroll tax (but should allocate it to the general fund) and to earmark enough of, say, the corporate income tax to pay for social security benefits, nothing would be changed except some accounting. Or, if Congress should decide that all taxes are to be deposited in the general fund and then should appropriate sufficient funds each year to pay for social security, again nothing would be changed. In each case, the taxes paid by individuals and businesses would be unaltered, the amount of borrowing by the Government from the public would be unaffected, and the expenditures of the Federal Government would be the same.

Labeling the payroll tax as a contribution is sometimes regarded as a crucial factor in gaining public understanding and acceptance

²⁰ For a thoughtful discussion of the implications of social security financing see John J. Carroll, *Alternative Methods of Financing Old-Age, Survivors, and Disability Insurance* (University of Michigan, 1960), chs. 1 and 3.

²¹ The courts have held that " * * * the noncontractual interest of an employee covered by the act cannot be soundly analogized to that of the holder of an annuity whose rights to benefits are bottomed on his contractual premium payments" (*Flemming v. Nestor*, 363 U.S. 603, 1960). The only assurance that benefits will continue to be paid is congressional unwillingness to repeal the program.

²² See Ida C. Merriam, *op. cit.*