

The process of liberalizing social security benefits is likely to continue, bringing with it a continued increase in social security taxes. This prospect raises important questions which the present study tries to answer at least in part. Among these questions are the following:

(1) Is the tax burden of caring for the aged likely to become unduly heavy?

(2) More specifically, is the burden of taking care of the aged likely to strain the limits of the payroll tax? In other words, has the payroll tax about reached the upper limit to which it can be pushed?

(3) Have we substantially abandoned the contributory principle in favor of a "social adequacy" concept in OASDI² programs?

(4) What are the alternatives in attempting to resolve the conflicts between "social adequacy" and the strains of increasing payroll taxation?

These are the major questions examined here. Other questions touched on include the following: Do recent increases in social security benefits call for a substantial change in the present income tax treatment of the aged? It is likely that the expansion of social insurance will endanger the growth of private pension plans and private provision for old age through other means? How are OASDI programs to be related to direct welfare programs?

Prof. Eveline Burns, of Columbia University, in a recent article entitled "Social Security in Evolution: Toward What?" has distinguished three stages in the evolution of social insurance in most Western countries.³ The first she described as follows:

... the initial form in which social insurance bore everywhere the imprint of its private insurance analogy. Benefits were closely related to contributions; equity, rather than adequacy, which scarcely came into question, was emphasized; coverage was limited to the best risks with sizable previous employment records; and the costs were assessed solely on the potential beneficiaries and their employers.

Stage II she described as characterized by: "* * * almost irresistible pressures to extend coverage—to additional persons and additional risks—and these extensions would in turn modify the principles and policies governing eligibility, benefits, and methods of financing. As the poorer and more irregularly employed were brought into the system, the strict relationship between benefits and earnings would become evermore untenable because of the necessity to insure a meaningful benefit to covered workers with low earnings. [The latter part of stage II would be marked by consideration of] * * * the desirability of a contribution from the general revenues."

Finally, stage III would be reached when "* * * thanks in large measure to the widespread of social insurance, there was general ac-

² OASI refers to the old-age and survivors insurance program which dates from 1935 (and the 1939 amendments which included survivors insurance). OASDI includes in addition the disability insurance program which was adopted by the 1956 amendments to the Social Security Act.

³ *Canadian Tax Journal*, July–August 1966, pp. 326–336. Professor Burns had originally set out these stages in a paper, "Social Insurance in Evolution," *American Economic Review Supplement*, vol. 34 (March 1944), pp. 199–211.