

The employee also bears some part of the employer's portion of the tax whether the tax is assumed to be shifted forward in the prices of goods and services or to be shifted backward in the form of lower money wages. (It is also possible that some portion of the tax falls on profits and other nonwage income.)

Moreover, a combined payroll tax rate approaching 10 percent of taxable wages is likely to have significant effects on business decisions on investment in capital equipment, and on the hiring of unskilled workers. A 10-percent tax on labor may intensify problems of unemployment or partial unemployment among those groups whose unemployment rate is already high.

The level of the payroll tax may be limited by another type of consideration. It would not be reasonable, in the view of many people, to levy social security payroll taxes at a rate in excess of what benefits of a similar nature would cost if the employee were to provide them through private forms of saving and insurance.

The payroll tax has risen to a level such that if a young worker today, with earnings at least equal to the maximum taxable base, computed the total of his expected payroll taxes plus interest over his lifetime, the value of his "contributions" would in many cases substantially exceed the discounted value of his expected benefits.

While experts differ in their views of how these calculations should be made, such comparisons suggest a definite kind of limit to payroll taxes. Young workers who begin to find themselves in this situation can be expected to offer more and more objection to increased payroll taxes.

Moreover, a general economic question is involved. It concerns allocating to social insurance, through payroll taxes, resources that would have more value in the purchase of private insurance and pensions.

The significance of such a limitation may be disputed by those who point out that the insurance analogy is a very loose one and the objective of "social adequacy" is more important. This leads to the third major question dealt with in this study:

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

From the beginning, the old-age and survivors insurance program was a mixed system aimed in part at relating contributions to benefits ("individual equity") and in part at making benefits "adequate" in terms of rough standards of minimum consumption levels. These two concepts of "social adequacy" and "individual equity" are generally conflicting, because very low income groups cannot be expected to pay a full "price" for the benefits provided under social security.

The old-age benefit structure, moreover, is heavily weighted in favor of those with low earnings records. The old-age retirement benefit in 1966 amounted to 62.97 percent of the first \$110 of average monthly covered wages, plus 22.9 percent of the next \$290 of average monthly covered wages, plus 21.4 percent of the remainder.

In addition, the provisions for minimum amounts of monthly benefits give the system a strong emphasis on social adequacy. The pressure to go further in this direction was illustrated by the 1967 proposal of the Administration to raise the minimum old-age retirement benefit from \$44 per month to \$70 per month. Such an increase would have been almost exclusively based on the concept of social adequacy. In fact, the Ways and Means Committee modified this proposal to provide