

benefit schedule. Until recently, however, the payroll tax was relatively low. People generally appear to have had an exaggerated idea of the extent to which they were paying for their own benefits. The increase in benefits may have seemed of more significance to the public generally than the increase in taxes.

The attitude toward payroll taxes could change markedly. At current and prospective payroll tax levels, an income tax increase for the purpose of raising benefits levels might seem to be an easy way out of the conflict between adequacy and individual equity.

(b) *Providing a general revenue contribution.*—Many who argue for a general revenue contribution do so because they want a large increase in social security benefits. They see such a contribution as a means of raising benefits to more “adequate” levels in relation to minimum family budget standards.

Moreover, it is argued that not only is the payroll tax high, but that this is a poor way to finance increases in benefits. If the OASDI system is to become an instrument for preventing or removing poverty, it would hardly be fair to do so with a payroll tax that reaches its maximum at \$6,600 or \$7,600. An increased emphasis on social adequacy would more logically be achieved through taxes levied on the general taxpayer.

Historically, another argument has been used for a general revenue contribution. It is that in the transitional stage to a “mature” social insurance system, most people become eligible for benefits even though they have not “contributed” anything like the full cost of those benefits. Until most workers have contributed during a full working lifetime at rates commensurate with the benefits they will receive, there is a large windfall accruing to current beneficiaries. This windfall, it is argued, constitutes an “unfunded liability” the burden of which should be borne by all taxpayers through revenues rather than through the payroll tax alone. Use of the payroll tax is largely justified by the relation between an individual’s contributions and his benefits, so that the “redistribution” in favor of current beneficiaries receiving windfalls should be met by a general levy.

(c) *Modifying the payroll tax.*—A closely related proposal is to modify the payroll tax to make it more like an income tax: to allow personal exemptions and to increase substantially the maximum wage base. This would relate the tax burden more closely to “ability to pay” and check the increasing “regressivity” of the total tax structure that goes with increased reliance on the payroll tax.

A higher maximum wage base would also mean increased benefits. Under the present benefit structure, which is heavily weighted in favor of those with low earnings records, a higher maximum tax base would serve to increase the emphasis on social adequacy. Benefits would go up for those earning as much or more than the maximum taxable wage, but not in proportion to the increase in wages or payroll taxes.

Such an alternative would depart further from the contributory, or “individual equity,” basis of financing.

(d) *Separating the benefit schedule and its financing into two portions.*—The conflict between the objectives of social adequacy and individual equity suggests the possibility of separating the major elements in OASDI programs designed to meet these different objectives: one which would emphasize “insurance” elements, and another which would emphasize welfare or adequacy elements.