

ployee might not choose to save toward his old age, some portion of the cost of a minimum old-age pension has come to be regarded as a necessary part of the cost of production of goods and services.

Our social insurance system compels nearly every employer as well as his employee to contribute to OASDI. The employee remains covered and, in a sense, received credit for his and his employer's contribution no matter how often he changes jobs. These features of quick "vesting" of pension and insurance rights and of "portability" are the very features that are difficult to provide for all employees under existing private pensions.

This difference between private and "social" systems is due in part to the fact that the building up of investment reserves is the essential means by which private pension plans insure that funds will be available for pensions when covered employees retire. A social insurance system with nearly universal coverage does not need this device to insure payment. The Government's promise to pay, although not in the form of a contract, is sufficient for most people, and it is backed primarily by the power to tax rather than by a reserve fund. For this and other reasons, Congress has, in effect, accepted a virtual pay-as-you-go system with only limited reserves for contingency purposes.

A pay-as-you-go social insurance system is a current taxing process to meet current benefit payments and expenses. This process may have little effect on the national rate of saving and investment; if anything, the effect is to reduce the rate of national saving because those who currently pay taxes are generally net savers, while beneficiaries generally are dissaving. Private pension funds, on the other hand, according to recent studies, have a substantial effect in increasing the national rate of saving. This consideration would become important if social insurance were provided on such a scale as to check the growth of private pension funds or private saving in other forms.

A separation of "welfare" and "insurance" elements in OASDI programs could mean a more efficient and more equitable financing system. But, it would be difficult to accomplish. It would involve complex problems of relating benefits to contributions; some value judgments on the importance of the objectives of "social welfare" and "individual equity"; and basic economic and political decisions in drawing an appropriate line between social and private insurance.

Sections II and III provide a brief review of the expansion of social insurance in the United States and of shifts in the financing principles involved. Section IV presents major alternatives or possibilities for revising the present system of financing OASDI programs. Section V examines in more detail the last alternative described above; namely, a possible separation of major welfare and insurance elements in OASDI programs. This alternative has so far received very little consideration in the United States.

II. EXPANSION OF SOCIAL INSURANCE, FUTURE COSTS, AND LIMITS TO PAYROLL TAXATION

Governmental policies toward the aged took a sharp turn in the mid-1930's with the adoption of the essential basis of the present social security system. This history of social security has been told and analyzed