

rise will essentially be due to new and expanded programs rather than to growth in the numbers of aged relative to the total or the working population.

LIMITS TO PAYROLL TAX FINANCING

The history and scheduled increases in the social security payroll tax are shown in table 2 (p. 30). Under existing law the combined employer and employee tax rate is scheduled to reach 9.8 percent of taxable wages up to \$6,600 in 1969. Under the bill, reported by the House Committee on Ways and Means in August 1967 (H.R. 12080), the rate would reach 9.6 percent of \$7,600. The scheduled rate in H.R. 12080 will exceed 11 percent of taxable wages by 1973.

The maximum tax for an employee in 1968 would be increased from \$290.40 under present law to \$334.40 under H.R. 12080. The maximum combined tax on employer and employee would increase from \$580.80 to \$668.80.

These are heavy taxes on an income of \$6,600 or even \$7,600. By way of comparison, a family with two children and income of \$5,000 in 1967 would pay a Federal income tax of \$306 (assuming standard deductions). At lower income levels the social security tax for most families would exceed the income tax. If the family had more than one wage earner, its direct payroll tax would substantially exceed its income tax.

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.⁸

That the payroll tax is reaching very burdensome levels was brought home to many people in 1966 when the maximum tax, as a result of a combined rate and base increase, went up by \$103 for the employee alone—an increase of 59 percent in 1 year. The reaction of organized labor was shown in a recent publication of the AFL-CIO:⁹

Clearly, the point is nearing when it will be difficult to tax low-paid workers at much higher rates. This creates a dilemma. Sooner or later, the principle that payroll taxes shall be the sole source of funding should be modified or goals must be lowered to the less than adequate improvements that can be financed this way.

A combined payroll tax rate approaching 10 percent of taxable wages is likely to have significant effects on business decisions. A 10-percent tax on additional labor (at least that involving the hiring of new employees) could well tip the balance in favor of decisions to invest further in labor-saving equipment.¹⁰ Moreover, the payroll tax is a relatively heavy tax on lower paid, less skilled labor. The impact may be significant on industries which rely more than the average on such labor. A tax impact which discourages the hiring of unskilled workers goes in the opposite direction to Government policies and pro-

⁸ There is also the possibility that a portion of the tax may be shifted to profits and rents.

⁹ Bert Seidman, "The Case for Higher Social Security Benefits," reprinted from the AFL-CIO *Federationist*, January 1967.

¹⁰ For further analysis, see Tax Foundation, *Economic Aspects of the Social Security Tax* (New York, 1966), ch. III.