

grams which are designed to relieve the relatively high unemployment rates among unskilled groups.

It is true that other taxes also have undesirable effects, but those of a payroll tax of 10 percent or more of wages up to a limited amount in most respects seem likely to be more significant than those of income taxes.¹¹

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 similar benefits would cost if the employee were able to provide them through private forms of saving and insurance.

The payroll tax has now risen to a level such that, on the basis of certain assumptions, the total value (including interest) of *employee* taxes paid over a lifetime on the wages of some people now entering the labor force will exceed the discounted value of benefits to be received by these "new entrants." For example, a calculation by Mr. Ray Peterson, formerly vice president of the Equitable Life Assurance Society of the United States, shows that the total value of employee taxes paid (under the Social Security Act as amended through 1965) by a *single male* retiring in the year 2010 would exceed his retirement benefits by 65 percent.¹²

A calculation by the Chief Actuary of the Social Security Administration shows that the average new entrant into the labor force today would just about pay for his retirement benefits from his own contributions.¹³ (The contributions-benefit ratio varies substantially with family status, age of entry into the labor force, age of retirement, and other factors.)

For workers who earn at least the maximum taxable wages, a further increase in the payroll tax could substantially exceed such a limit, because benefits are heavily weighed in favor of those with lower earnings.

It has been argued that a substantial portion of the employer's tax is shifted back to the worker in the form of lower money wages and should, consequently, be taken into account in such comparisons of taxes and benefits.¹⁴ On the other hand, it is argued that, regardless of the incidence of the tax, the employer's portion is a general contribution on behalf of all covered workers and cannot be attributed directly to the employee on whose wages the tax is levied.

The individual employee is likely to be mainly concerned with the size of his own contribution, changes in which have a direct impact on his take-home pay. From a broader economic point of view, the value of resources diverted to social insurance should be compared with their potential value in private uses. Potential private uses may include not only private personal saving, but also private pension plans largely financed by employer contributions. If the principle of "in-

¹¹ For a discussion of effects, see Elizabeth Deran, "Some Economic Effects of High Taxes for Social Insurance," paper prepared for the Joint Economic Committee Compendium on Old-Age Income Assurance, 1967.

¹² Tax Foundation, *Economic Analysis of the Social Security Tax* (New York, 1966), p. 48.

¹³ Robert J. Myers, "Analysis of Whether the Young Worker Receives His Money's Worth Under Social Security," mimeographed memorandum, Social Security Administration, Mar. 8, 1967. More detailed calculations can be found in *Studies on the Relationship of Contributions to Benefits in Old-Age Benefit Awards*, Social Security Administration Actuarial Note No. 20, June 1965.

¹⁴ James M. Buchanan and Colin D. Campbell, "Voluntary Social Security," *Wall Street Journal*, Dec. 20, 1966.