

dividual equity" is judged to be of primary importance in social insurance, then employer contributions can hardly be omitted entirely from comparisons of individual tax-benefit ratios.

In summary, the expansion of social insurance programs in the United States is pushing the payroll tax to discernible limits. Views on these limits depend in part on judgments concerning the relative importance of insurance elements versus the objective of "social adequacy." The scale on which both these objectives are being pursued is emphasizing the conflicts between them and the need for reexamining the major policy alternatives.

III. FINANCING PRINCIPLES IN SOCIAL INSURANCE

In a short space it is impossible to do justice to the extended analyses and debates that have raged over the financing of social insurance programs.¹ Nevertheless, some review of how we got where we are in 1967 is necessary to an analysis of current policy alternatives.

SHIFTS IN FINANCING PRINCIPLES FOR OASDI

The reports of several advisory groups on social security programs constitute a record of the "mainstream" of thought on social security financing. The first of these groups, the Committee on Economic Security, provided the initial recommendations for present programs in 1935. Its history, activities and views, have been reviewed by its executive director, Edwin E. Witte, in *The Development of the Social Security Act* (Madison, University of Wisconsin, 1962).

This committee based its recommendations for old-age insurance in part on two general financing principles, one of which was not adopted in the original act, and another which was subsequently sharply modified. Its recommendation for a general revenue contribution to the trust fund in addition to payroll taxes was not adopted. The principle of accumulation of a substantial reserve to meet future liabilities was very much modified by later amendments.²

The 1939 amendments included substantial changes in benefits and contributions. The scheduled increase in the tax rates in 1940 was postponed, so that the accumulation of reserves was on a much smaller scale than contemplated earlier. The relationship between individual contributions and benefits was also weakened.

In the 1939 amendments, "proponents of a pay-as-you-go financing won a victory but the extent of the victory was uncertain."³ As shown in chart 2, contributions continued to exceed expenditures and the assets of the fund grew rapidly.

Few substantive changes were made in social security financing during the 1940's. Scheduled rate increases were further postponed, reducing the rate of accumulation of assets. The Revenue Act of 1943 made provision for general revenue contribution whenever it might

¹ For a summary of the controversies over accumulating a reserve, see John J. Carroll, *Alternative Methods of Financing Old-Age, Survivors, and Disability Insurance* (Ann Arbor: University of Michigan, Institute of Public Administration, 1960), ch. III.

² The extent to which the committee and the original Social Security Act embraced a reserve financing principle was obscured in part by attempts to deal with problems of constitutionality (Witte, *op. cit.*, pp. 146-149). In the Ways and Means Committee report on the social security bill, old-age benefits were projected at \$2.2 billion for 1965 and reserves at \$30 billion (H. Rept. 615, 74th Cong., 1st sess., Apr. 5, 1965, p. 6) thus indicating a substantial reliance on the reserve principle.

³ Carroll, *op. cit.*, p. 4.