

"* * * perhaps there is some modification in policy that is embodied in this proposal. We think the system should be consistent with the philosophy of a wage-related system and still make a substantial contribution to the reduction of poverty; we think that those two objectives should be kept in mind but always balanced so that people who have higher earnings and who contribute more get more."³

The concern of the Ways and Means Committee was evident also in the sharp cut backs in proposed increases in benefits and payroll taxes in the bill (H.R. 12080) reported by the committee on August 7, 1967 (see table 1, above, p. 22).

Recent debates and current pressures for change suggest various alternatives or possibilities for the future financing of OASDI programs.⁴ Four alternatives, illustrating the major value judgments and economic issues involved, are examined here: (1) To continue approximately the present balance between the objectives of social adequacy and individual equity; (2) to provide a general revenue contribution to OASDI trust funds; (3) to modify the payroll tax to reduce the burden on low income groups; and (4) to divide the benefit schedules into two portions, one of which would be based on "adequacy," and one which would directly reflect individual contributions, and to finance each portion separately by different forms of taxation.

MAINTAINING THE PRESENT BALANCE OF OBJECTIVES

Through a long political process the United States has developed a social insurance system that provides a working balance between the objectives of adequacy and individual equity. Indeed, some such balance may be taken as one of the distinguishing features of "social insurance."

The Committee on Social Insurance Terminology of the American Risk and Insurance Association, in its most recent redrafting of the definition of "social insurance," listed as one of the conditions or characteristics of such insurance the following:

The benefits for any individual are not usually directly related to contributions made by or in respect of him but instead usually redistribute income so as to favor certain groups such as those with low former wages or a large number of dependents.⁵

The extent of redistribution consistent with "social insurance," however, is largely a matter of value judgments. The current balance in objectives is being strained as the payroll tax burden grows. In the view of one member of the House Committee on Ways and Means, a substantial increase in the redistribution of income in favor of low income groups under social insurance programs: "* * * would re-make our social security system into an extension of the welfare pro-

³ Quoted in American Enterprise Institute, *Legislative Analysis, Proposed Social Security Amendments of 1967* (Washington, D.C.: 1967), pp. 25, 26.

⁴ Hospital insurance and the voluntary medical supplementary insurance, adopted in 1965, are not separately examined here. They involve another range of issues in addition to the fundamental issues of objectives in the older "insurance" programs. The innovations in financing health insurance, including a general revenue contribution for SMI, nevertheless serve to illustrate problems in financing the older programs.

⁵ Unpublished mimeographed draft dated spring 1967.