

erty line at the same time. If the prime objective is to improve the economic position of those below the poverty line, a dollar of expenditures will go further in other programs than through increases in the social insurance benefit structure.¹³

Historically, a more technical argument has been used for a general revenue contribution. It is that in the transitional stage to a mature social insurance system, most people become eligible for benefits even though they have not contributed anything like the full cost of those benefits. Until most workers have contributed a lifetime at rates commensurate with the benefits they will receive, a large windfall will continue to accrue to current beneficiaries. This windfall, it is argued, constitutes an unfunded liability the burden of which should be borne by all taxpayers through general revenues rather than through the payroll tax. Since the use of the payroll tax is largely justified by the *quid pro quo* element, the redistribution in favor of current beneficiaries receiving windfalls should be met by a general levy.

This position has been countered by the argument that under the present system, the employer's contribution is really a contribution on behalf of all workers and cannot be attributed to the particular individuals on whose wages the tax was levied. Thus the employer's contributions may be used for redistributive purposes to whatever extent one may deem such redistribution to be consistent with social insurance. In particular, the employer's contribution may be considered an appropriate way to finance the windfalls accruing to current beneficiaries during the process of approaching a mature social insurance system.

The social insurance system, as it has operated to date, will never in fact reach maturity because the benefit structure will continue to be revised upward at least to take account of increased prices and probably also to provide the aged with improved real incomes as the Nation's average standard of living rises. Because Congress will almost certainly take account of these dynamic elements on the benefits side, it would be more realistic to take account of such changes in determining the allocation of the related taxes in the long run.

MODIFYING THE PAYROLL TAX

Closely related to a general revenue contribution is the proposal to modify the payroll tax to make it more like an income tax: to allow personal exemptions and to increase substantially the maximum wage base. Such changes would check the growing impact of direct taxes on low-income groups that goes with increased reliance on the payroll tax.¹⁴

It is argued that " * * * the distinction between the personal income tax and the social security tax, *qua* taxes, is almost completely arbitrary,"¹⁵ and so the impact of the two taxes should be examined as a unit. Such a viewpoint would, in effect, mean giving up the contributory principle as the primary justification of the payroll tax.

¹³ Christopher Green, *Negative Taxes and the Poverty Problem* (Washington, D.C.: The Brookings Institution, 1967), pp. 41-43.

¹⁴ Henry Aaron, "Rate Progressivity and the Direct Taxation of Personal Income," *Taxes, the Tax Magazine*, vol. 44, No. 7, July 1966, pp. 497-503; Joseph M. Bonin, "OASDHI Taxation and the Progressivity of the Federal Tax Structure," *Taxes, the Tax Magazine*, vol. 45, No. 2, February 1967, pp. 137-140.

¹⁵ *Ibid.*, p. 498.