

where the benefits of public expenditures can be attributed to specific groups of individuals, and taxes for the support of these expenditures can be efficiently levied on these same groups, people will, on the whole, be better off than if these expenditures are financed out of general revenues.

With annual expenditures of approximately \$20 billion for social insurance, the potential for more economic and equitable allocation of these resources is large.

V. POSSIBILITIES AND PROBLEMS IN A TWO-TIER SYSTEM

The conflict between the objectives of social adequacy and individual equity suggests the possibility of separating the major elements in OASDI programs designed to meet these different objectives, and to provide different kinds of financing for each.

At least in a formal sense, we now have "separate" systems for old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance (SMI). Each is assigned a designated part of the tax rate (except for the optional "premium" in the case of SMI), and each is assigned a separate trust fund. For supplementary medical insurance, the Government makes a contribution from general revenues equal to the total premiums of participants.

It would be feasible to go to a system in which minimum retirement benefits, for example (or other noninsurance portions of benefits, were financed from, say, a specified rate on individual *taxable* income (as defined for income tax purposes). Insurance elements would continue to be financed by payroll taxes. A system on such lines is now being used in Canada.

THE CANADIAN SYSTEM

In 1952 the Government of Canada adopted a universal old-age pension of a flat amount per person, paid without a means test, and financed by a three-way tax on individual incomes, corporation incomes, and manufacturers sales. (The manufacturers sales tax is an important part of the Federal tax system in Canada.) The three-way tax was originally a 2-percent (now 4-percent) surcharge levied on the base of these three major Federal taxes. The pension was originally \$40 per month. It is now \$75 per month.

In 1965 Canada adopted, in addition to this universal old-age pension, a wage-related contributory system, called the Canada pension plan, under which individual contributions are closely related to benefits.¹

The Canada pension plan provides retirement pensions, disability pensions, children's, wives', and widows' benefits in case of death or disability, and a lump-sum payment at death. Benefits are to be adjusted in accordance with the cost of living (and eventually related to the average wage level).

¹ Further details can be found in *The Canada Pension Plan* (Ottawa: The Queen's Printer: 1965).