

the claimant * * *; there is no requirement that the individual demonstrate inadequate financial resources, although a dependency status may need to be established.

(3) The method for determining the benefits is prescribed by law.

(4) 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) There is a definite plan for financing benefits that is designed to be adequate in terms of long-range considerations.

(6) The cost is borne primarily by contributions which are usually made by covered persons, their employers, or both.

(7) The plan is administered or at least supervised by the Government.

(8) The plan is not established by the Government solely for its present or former employees.

This definition accurately reflects the state of social insurance today, but it does not point up the current problems in social insurance financing.

JUSTIFICATION FOR WAGE-RELATED CONTRIBUTORY SYSTEM

The traditional arguments for a social *insurance* system, in addition to adequacy considerations, still have relevance.

Since the beginning of the social security system, compulsory provision for old age has been justified by the argument that without such provision many of the aged would become public charges, or direct welfare recipients. If many people voluntarily provide for their own old age while others do not, the former will end up paying part of the old age costs of the latter.

The force of this argument has diminished somewhat with the increasing private financing resources of the aged although the majority of OASDI beneficiaries still have no other source of "retirement income."⁵ As income rises, providing for their own retirement becomes one of the services that more and more people want to buy. At low-income levels, the implicit discount rate that many people put on saving for old age is undoubtedly high. This is suggested by the extremely high-interest rates that many persons at low-income levels (and in low-income countries) are willing to pay for borrowing of any sort.

Forcing people to save through social insurance may appear to be an undue interference with individual choice.⁶ However, the evidence seems to be that social security has had the effect in the past of height-

⁵ Robert M. Ball, "Policy Issues in Social Security," *Social Security Bulletin*, June 1966, p. 5, and *The Aged Population of the United States, the 1963 Social Security Survey of the Aged*, Social Security Administration Research Report No. 19 (Washington, D.C.: Government Printing Office, 1967).

⁶ The economic question of whether the individual savings in the form of social insurance taxes will actually be turned into real national saving and investment is another question which is examined below, p. 55.