ening the people's awareness of the need for saving for old age, and also has given them a start on which to build additional private saving and insurance. The fact that the initial tax rate in this country was so low (1 percent) for nearly a decade and a half perhaps contributed to some illusion as to how much insurance was actually being *purchased*—as Mr. Robert Clark has indicated, people generally have an exaggerated idea of how much they have contributed to their own benefits.

In any case, far from checking the growth of private insurance, social security seems to have stimulated it.[7] Whether or not such a relation may continue is another matter—if social security taxes continue to rise, they may well limit the ability of people to save in other ways.

However, the arguments may be arrayed on the question of compulsory saving for old age, at least a minimum of such compulsion is accepted in most western countries. Acceptance of such compulsion seems to be a part of the decline of dependence on the family as an old-age security system.

The limitations of private provision for old age continue to provide a justification for a governmental system. Even though the employee might not choose to save toward his old age, some portion of the cost of a minimum old-age pension should probably be regarded as a necessary part of the cost of production of goods and services. As more than one writer on insurance economics has pointed out, we set up accounts to take care of depreciation and obsolescence of physical assets; and at least part of the cost of life insurance and retirement for individuals should be treated in a similar fashion by the firm as well as the individual.[8]

The rapid growth of group insurance and private pension plans shows a recognition in the market that the current cost of production includes some provision for the worker after he reaches an age of retirement or one in which he can no longer work productively. But, despite the growth of what has been called the corporate social security system,[9] the workings of the labor market are usually such that the individual firm is not forced to take into account the cost of maintaining workers after they retire, at least for employees who remain with one firm for a short time. To insure that such costs are taken into account in current production may be regarded as one of the economic justifications for a social insurance system.[10]

The social insurance system compels every employer as well as the employee to contribute an equal amount to OASDI. The employee remains covered, and in a sense, receives credit for his and his employer's contributions, no matter how often he changes jobs. These features of immediate "vesting" of pension and insurance rights and of "port-

[7] Philip Cagan, *The Effect of Pension Plans on Aggregate Saving,* National Bureau of Economic Research, Occasional Paper No. 95 (New York, 1965), pp. 6, 82; and John H. Magee, *Life Insurance* (Homewood, Ill.: 1958), p. 361.

[8] S. S. Heubner, *The Economics of Life Insurance,* third edition (New York: Appleton-Century-Crofts, 1959), particularly ch. 7.

[9] Harland Fox, "The Corporate Social Security System and Workmen's Compensation," *The Conference Board Record,* vol. I, No. 2, February 1964, pp. 7–16.

[10] There are "external costs" involved in provision for old age which usually is not taken into account by the individual and the firm. In a similar way, private business accounting did not adequately take account of depreciation costs before the advent of the income tax. (George Terborgh, *Realistic Depreciation Policy,* Machinery and Allied Products Institute, Washington, D.C., 1954, pp. 2, 3.)