ability" are the very features that are difficult to provide for all employees under private insurance.

Social insurance thus provides a means of insuring that all, or nearly all, individuals and firms take account of costs of old age and disability that otherwise would fall on the general taxpayer.

One of the distinctive features of social insurance is that it provides a means of taking care of the "transitional" costs of instituting old-age income insurance without necessarily involving the long period for the buildup of reserves and the growth of investment income that are an essential part of private insurance and pension plans.

Under a pay-as-you-go system, the present labor force pays taxes which are used to support the present beneficiaries. Those who are currently paying taxes receive, in exchange, a promise by the Government (though not in the form of a contract) to provide them with certain benefits or "protection." This promise to pay can provide today's worker with "his money's worth" even though the taxes are used currently to support persons whose contributions have been far less than the cost of their benefits. The social insurance system is more than a process of redistributing income by age group (or by income level). By relating an individual's contributions to his benefits, a mutually advantageous exchange (between people in different age groups) can be achieved,[11] while under an income redistributing system, some people necessarily give up something to provide a gain for others. By general consensus, some income redistribution is necessary in providing for the needy aged—our society does in some way take care of the destitute. But, at any level of old-age benefits, the economic position of most individuals could be improved by providing a financing system in which benefits are related to contributions, and income redistributing elements are separately financed by general revenues (or, more strictly, from the individual income tax). (The meaning of redistribution is discussed further on page 57.)

This point is closely related to the traditional argument that social insurance gave people a sense of collecting by "right" rather than as welfare recipients. If people have "paid for" social security on an individual equity basis, the payroll tax is of much less significance as a *tax* than if it is essentially being used for income redistribution.[12]

REDISTRIBUTION IN OASDI

The "welfare" element in OASDI is reflected in the substantial amount of income redistribution that is effected through these programs. The two major kinds of redistribution involved are: (1) from higher to lower income groups, and (2) from those currently working and "contributing" to those who are receiving benefits substantially in in excess of their own contributions in the past. In addition to these

[11] This and some related propositions were demonstrated by Paul A. Samuelson in his article, "An Exact Consumption-Loan Model of Interest With or Without the Social Contrivance of Money," *Journal of Political Economy*, vol. 46, No. 6, December 1958, pp. 467–482. See also the appendix below, p.63. An opposing view, that on true economic exchange can be made between generations by social insurance, can be found in Abba P. Lerner, "Consumption-Loan Interest and Money," *Journal of Political Economy*, vol. 67, No. 5, October 1959, pp. 512–525. Lerner's view, in effect, is a denial of the possibility of a *quid pro quo* financing basis in a pay-as-you-go social insurance system.

[12] For further elaboration of the benefit principle as applied to social insurance, see W. Glenn Campbell, "The Economics of Social Security and the Theory of Government Finance," *National Tax Journal*, vol. 4, No. 2, June 1951, pp. 167–179.