

types of redistribution, the existing benefit structure and conditions of eligibility discriminate in favor of certain groups of people regardless of income level or age.¹³

Neither of the two major kinds of redistribution—by wage level or by age group—can be easily measured, in part because of problems of definition. Redistribution by income level can be defined with respect to the existing benefit structure and contribution levels: How do the existing or expected benefits compare with contributions under present law for people at different income levels? Studies done on this basis indicate a substantial redistribution from those whose earnings are near or above the maximum taxable level, to those whose earnings are well below the maximum.¹⁴ Such comparisons made at any point of time must assume some expected benefit levels and past or future contribution levels, which may turn out to be unrealistic.

Redistribution by income level may also relate to the total relation between payroll taxes paid by all groups at different income levels and the benefits received by all families at different income levels.¹⁵ This collective redistribution is useful for examining broad fiscal effects of the social insurance system. It has little direct relevance to the problems of equity because it does not distinguish between age groups by income levels and takes no account of *quid pro quo* elements.

“Intergenerational” redistribution is also subject to definitional problems. The extent to which an individual pays for his own benefits is debatable. Some would attribute to the individual not only the employee’s contribution but also all or a part of the employer’s contribution. Others argue that the employer’s contribution cannot be attributed to the individual employee but is a general contribution for the support of all covered workers. Some would argue that even the employee’s contribution has so little relation to benefits that the whole process is a transfer with no real element of payment in exchange for a service.¹⁶

A true, wage-related pension system would be more than a transfer—each individual would have “paid for” his pension during his working years.

The transitional problems involved in providing “adequate” benefits during the period between the initiation of the program and the time when most people will have contributed over a working lifetime constitute perhaps the most difficult problems of equity. The problems are difficult because to have a program of importance in the transitional period, benefits cannot be based solely on contributions paid. The principle of social adequacy is given an important role, and it means “windfalls” to most beneficiaries during the transition to a “mature” system.

¹³ Elizabeth Deran, “Income Redistribution Under the Social Security System,” *National Tax Journal*, vol. 19, No. 3, September 1966, pp. 276–285; and Henry Aaron, “Income Transfers Under Social Security,” in Otto Eckstein, ed., *Studies in the Economics of Income Maintenance* (Washington, D.C.: The Brookings Institution, 1967), pp. 61–72.

¹⁴ Ernest C. Harvey, “Social Security Taxes—Regressive or Progressive?” *National Tax Journal*, vol. 18, No. 4, pp. 408–414.

¹⁵ For example, Tax Foundation, *Tax Burdens and Benefits of Government Expenditures by Income Class, 1961 and 1965* (New York: 1967), pp. 32, 33.

¹⁶ “Pension benefits are too loosely related to contributions for the annuity analogy to hold in any meaningful sense.” (*Old Age Income Assurance: An Outline of Issues and Alternatives*, materials prepared by the committee staff for the Subcommittee on Fiscal Policy of the Joint Economic Committee, 89th Cong., 2d sess., Washington, D.C., Government Printing Office, 1966, p. 8.)