The orders of magnitude involved can also be illustrated by estimating the cost of the present minimum retirement benefit if it were financed as a separate element of the benefit structure for all retired bneficiaries. If a minimum old-age pension of $44 per month were paid to all persons currently receiving retirement benefits (11½ million in 1966) the cost would be about $500 million per month as compared with actual monthly retirement payments of about $980 million in 1966 [22] (or about $6 billion per year as compared with actual retirement payments of about $12 billion per year).

The cost would be much less if it related only to those receiving the minimum retirement benefit.[23] A flat minimum retirement benefit for all beneficiaries would be "uneconomic" in that it would apply to those not really in need. More strictly defined, a "welfare" element would be related in some way to a means test. The OASDI system, in effect, has a means test in its record of earnings. For most beneficaries, other sources of income are of minor importance.

The direction in which a separation of welfare and insurance elements leads is a complete revision of the benefit structure. The existing weighting of benefits in favor of low-income groups would be replaced by a more closely wage-related schedule of insurance benefits. The adequacy objective would be reflected instead in a noninsurance payment also dependent on the beneficiary's record of past and current earnings. The record of attachment to the labor force would become the chief distinguishing feature between OASDI payments and public assistance. The measure of "means" or needs in the OASDI system is rough, but a major function of public welfare programs to deal in detail with the variation in needs of low-income families. The OASDI payment would be a basic cash payment for purposes of public assistance programs, as is now the case, for beneficiaries of both types of programs.

ECONOMIC EFFECTS

An important policy objective in revision of the social insurance system is the minimizing of distorting economic effects. One of the limits on payroll taxes is the possible differential effects on different kinds of industries. These have been examined in a previous tax foundation study, as have the problems of relating social security financing to countercyclical fiscal policy.[24]

One of the major problems that bears on social security revision is the effect on economic growth. This question has been debated and examined at great length, in the past, in connection with the issue of building up reserve funds. The insurance analogy seemed to call for a large reserve fund, but the possible deflationary effects of building up such a fund were a major consideration in the shift to a virtual pay-as-you-go system. Moreover, many questioned whether a reserve fund invested in Government securities would have any real effect on national savings and investment. If the build-up of a financial reserve had no real effect on the rate of investment, the economic argument

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[22] *Social Security Bulletin,* March 1967, table M–9, p. 31. These figures refer to retired workers only. They exclude dependents' and survivors' benefits.

[23] "In 1964, 16 percent of the 1,042,000 benefit awards were based on a PIA (primary insurance amount) at the minimum." (Lenore A. Epstein, "Workers Entitled to Minimum Retirement Benefits Under OASDHI," *Social Security Bulletin,* March 1967, p. 3.)

[24] Economic Aspects of the Social Security Tax (New York: 1966).