

the maximum taxable wage or more) is an element in the system which was excluded from the model used above; namely, redistribution by income level. The model assumed that everyone got the same wage and the same pension.

In the United States the retirement benefit is not a straight pension or annuity reflecting past levels of earnings. Rather, the benefit structure is set up so that, under the 1954 act; for example (later provisions are somewhat more complicated, but the same in principle), monthly retirement benefits amounted to 55 percent of the first \$110 of average monthly covered wages, plus 20 percent of the next \$240 of average monthly wages. Thus, the benefit structure is such as to provide a large discrimination in favor of very low incomes. On the other hand, the tax rate is a flat rate up to the maximum taxable wage. The structure of taxes and benefits together result in a large amount of income redistribution by income levels.¹²

Currently, average retirement benefits are substantially below the maximum benefits payable to those with covered wages equal to or in excess of the maximum (chart 1, p. 31). If the maximum wage base were substantially raised, and a benefit schedule similar to the present one (in relation to covered wages) were retained, the extent of redistribution by income level would be increased. In effect, further redistribution would be accomplished by greater price discrimination between those with high and low taxable earnings.

Redistribution effected through a system of price discrimination by income level will generally be less advantageous for the community as a whole than the same redistribution effected through an income tax and an equivalent subsidy to low income groups through transfer payments.¹³

¹² Analyses of redistribution in the social security system can be found in Elizabeth Deran, "Income Redistribution Under the Social Security System," *National Tax Journal*, vol. 19, No. 3, September 1966, pp. 276-285; Ernest C. Harvey, "Social Security Taxes—Regressive or Progressive?" *National Tax Journal*, vol. 18, No. 4, December 1965, pp. 408-414; 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.

¹³ A demonstration of this kind of proposition applied to medical care can be found in Kenneth J. Arrow, "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review*, vol. 53, No. 5, December 1963, pp. 957, 958.