

participants will fare much better than investors in fixed dollar claims have in recent recades, but much less well than long-run investors in equity capital.³

A. SOME ISSUES IN THE CONTROVERSY

Before turning to the evidence, it should be acknowledged that estimation of lifetime tax-benefit ratios for individuals is a somewhat artificial exercise in the first place. Why should we ask whether a person ultimately recoups in benefits the equivalent of his taxes when the same question is rarely asked with respect to other taxes? The essence of the social security system is that it is a current transfer program under which the working generation pays taxes to finance benefits to others who have retired. Since the taxes and later benefits assigned to an individual are not related at all closely as they are under private insurance, a strong case can be made for completely separate analysis and evaluation of the tax and benefit structures on their own merits. Certainly the present existence of a very tenuous relationship between individual taxes and benefits does not exempt the payroll tax itself from the criticism that it is regressive and a heavy burden on low-income groups.

Despite these methodological considerations, the question of the attractiveness of social security to individuals has already been recognized for debate, and it is tempting to be diverted to the issue. Part of the temptation is due to the explicit earmarking of the tax for provision of benefits. Furthermore, participants in the system have been encouraged to believe that they are "paying for" their benefits individually, and many appear to believe that they will get just what they pay for, as under private insurance. On the other hand some younger workers with a long period of taxpaying ahead of them and an even longer wait for benefits have been grumbling about rising social security taxes.⁴ Others are asking Congressmen whether they are getting their money's worth under social security. In view of this increasing interest and concern, it seems in order to examine the issue within this framework. However, the objective of such analysis is to throw some light on the redistributive effects and dynamic features of the overall system, and it carries no implication that social security should be evaluated as a conventional insurance program.

SOME EARLIER VIEWS

The contradiction between the evaluations of Samuelson and Friedman cited above is due in part to differing assumptions. Samuelson counted on growth of real earnings of some 3 percent per year to enable the earning population to pay benefits to the retired population always

³ This comparison carries no implication that an option to invest in equity capital could or should be built into the present social security system. The objective is to provide a yardstick against which the yield on this form of saving may be appraised. This, of course, may well be relevant to the decision as to the appropriate ceiling on taxable earnings, maximum tax rate, and ultimate size of the system.

⁴ "We aren't reaching our young people," concedes one [AFL-CIO] politico. . . . For example, current . . . polls find young union members resentful of the federation's support for increased social security benefits; the money is to come from taxes, "and a lot of our groups don't like this money being taken out of their pockets." (John A. Grimes, "Labor's Image," *Wall Street Journal*, Mar. 1, 1967.)