

much greater than the value of their accumulated taxes. However, he did not spell out the other conditions required in order for this to occur. Specifically, it is not clear whether he imputed interest to the accumulated taxes, or whether he discounted the prospective benefit stream.⁵

Friedman was referring to the type of analysis presented by Colin Campbell and others and based on current legislation.⁶ Campbell took the scheduled tax and benefit structure as given and demonstrated that the value of taxes paid in the name of young workers, plus imputed interest at 4 percent, would be much greater upon retirement than the value at that time of scheduled benefits. However, his analysis did not allow for income growth and the likely corresponding increase in both taxes and benefits. Although both are expected to increase, this failure to allow for growth biases the estimate in favor of the "raw deal" argument since the benefits which a worker can expect grow for a longer period than the taxes he pays.

Perhaps baffled by the diversity of opinion on how individuals are faring under the system, one Congressman recently asked social security officials how he should answer his constituents on this issue:

I would like an answer to the basic question that concerns the young person coming under the social security system as to whether this is a sound financial investment or whether he is being taken—whether he could invest his money elsewhere more wisely.⁷

The Social Security Administration responded with estimates by its Chief Actuary, Robert J. Myers, and included a critique of the bad-buy-for-the-young thesis such as that set down by Campbell.⁸ It was stated that this argument is not true even if one makes the unrealistic assumption that present benefit schedules will remain unchanged.⁹ Even if they were fixed, the Administration argued, social security is a good buy under present law for the young worker in terms of the tax which he himself will be asked to pay; on the assumption of a 3¾-percent interest rate, this was estimated to be only 80 to 85 percent of the value of the prospective benefits. Even earners paying the present and proposed maximum tax were said to come out about even.

The findings of Campbell and others were indicted on two additional counts: (1) Failure to take into account the value of the survivor and disability insurance protection, and (2) the usual assumption that the employer tax belongs to, and in the absence of social security,

⁵ For technical analysis of dynamic features of a social insurance system see Paul A. Samuelson, "An Exact Consumption-Loan Model of Interest With or Without the Social Contrivance of Money," *Journal of Political Economy*, LXVI, December 1958, pp. 467-482 and Henry Aaron, "The Social Insurance Paradox," *The Canadian Journal of Economics and Political Science*, XXXII, No. 3, August 1966, pp. 371-374.

⁶ Colin D. and Rosemary G. Campbell, "You'll Never Get Back All Those Old-Age 'Contributions,'" *The Washington Post*, Nov. 7, 1965, sec. E, p. 3, and James M. Buchanan and Colin D. Campbell, "Voluntary Social Security," *Wall Street Journal*, Dec. 20, 1966, p. 14. For similar calculations, see Ray M. Peterson, "The Coming Din of Inequity," *The Journal of the American Medical Association*, Apr. 8, 1961, pp. 34-40, and more recent estimates by Mr. Peterson reported by Elizabeth Deran in "Income Redistribution Under the Social Security System," *National Tax Journal*, September 1966, pp. 276-285.

⁷ *President's Proposals for Revision in the Social Security System* (hearings before the Committee on Ways and Means, House of Representatives, Mar. 1, 2, and 3, 1967), question of Congressman Ullman, p. 329.

⁸ *Ibid.*, pp. 330-41.

⁹ Officials forecast that earnings increases will permit increases in benefit schedules without higher tax rates.