

would be available to, each employee in an amount equal to his own contribution. These two points are subject to criticism. It is true that failure to recognize that only part of the tax is designated for retirement benefits would distort any analysis, but the writers criticized were generally aware of this problem.¹⁰ Much more important is the second point concerning the treatment of the employer's portion of the tax. Estimation of the aggregate lifetime burden of social security taxes on a worker requires an appraisal of the extent to which the employer's tax is borne by the earner.¹¹ This complex question cannot be treated in detail here, but it is so fundamental that a brief digression on this problem seems worthwhile.

ON THE INCIDENCE OF THE TAX ON EMPLOYERS^{11a}

The early literature on the incidence of the employer tax was summed up in 1941:

Economists who, in the years preceding the introduction of the Social Security Act, had given the problem of incidence careful consideration, seem to have been in general agreement that a payroll tax, whether levied on the worker or the employer, would be paid ultimately by the workers. * * * In the years that have passed since the Social Security Act became law, the weight of informed opinion still seems to be that the payroll tax is borne largely by the workers.¹²

Although earlier economic reasoning rested on the marginal productivity theory of wages under rather simplified assumptions, this consensus among economists that in the long run labor bears this very generally applicable tax appears to have persisted, although with less unanimity.¹³ The social accounting convention recommended in the *U.N. System of National Accounts* and followed by many countries other than the United States also implies that the employer tax is borne by labor; it is treated as though it were a tax deducted at the source from employees' income.

Clearly, on the assumption of a highly inelastic aggregate labor supply and a downward sloping labor demand curve reflecting variation of the total compensation rate with employment, the marginal productivity theory shows that labor must absorb a payroll tax if employment is not to be reduced. However, the essence of the more general argument is that it should matter little to an employer how he pays a given amount of total compensation (including social se-

¹⁰ For example, Campbell was not guilty of this error; he deducted 20 percent of the tax to remove the portion estimated to be needed to finance OASDI benefits other than those of the aged. This same 20 percent figure is mentioned by the actuary as the appropriate fraction to eliminate (*Ibid.*, p. 331). In any case the adjustment appears to be of little practical consequence; the actuary indicates in an unpublished memorandum that disability benefits and survivor benefits due to preretirement death are roughly paid for by the sum of the contributions for the beneficiaries and by those who die before retirement without eligible survivors.

¹¹ The incidence of the employee's tax is not at issue since the usual view that direct taxes on individual earnings rest on those who pay them has rarely been questioned in the literature on the social security tax.

^{11a} In this section it is argued that the tax paid by employers on behalf of their employees is actually borne by the employees. This premise is fundamental to the later estimates, but the brief technical case made for it here may be omitted by readers primarily interested in the quantitative findings.

¹² Seymour Harris, *Economics of Social Security*, pp. 285-286.

¹³ In the short run the picture is undoubtedly less clear cut. There may be lags in the response by employers, short-run constraints imposed by the minimum wage and union scales and other rigidities.