

curity taxes as well as ordinary fringe benefits).¹⁴ Whatever the degree of competition and elasticities in the labor market a certain level of total compensation will be arrived at under prevailing conditions of labor demand and supply.¹⁵ Any external imposition of an addition to total compensation such as the employer social security tax will tend to be countered by a granting of less compensation of other types than would be the case without the tax. Following this reasoning, the employer contribution is viewed as a substitute for other types of labor income and in effect paid out of labor's potential share.¹⁶

Although the above argument is entirely theoretical, the present writer has also completed, but not yet reported, an empirical investigation of the tradeoff between employer payroll taxes and other compensation. The analysis was primarily in a production function type of framework. Cross-country regressions showed clearly that at a given level of labor productivity industries in countries with relatively high employer payroll taxes paid a basic wage that was relatively low by about the same amount. Hence the tax is seen to be shifted to labor since the larger the tax the lower the basic wage the workers with given productivity tend to receive. Similar results, though less statistically convincing, were obtained from time series analysis of U.S. data.

It should be stressed that the criticism by the Social Security Administration of the imputation of the employer tax to each employee does not imply rejection of the previous general argument that labor as a whole bears the tax. Its argument is on a different ground:

Even though it is true that the employer contribution in the final analysis is borne in considerable part by employees, either because they receive lower wages than they otherwise would or because as consumers they pay higher prices than they otherwise would, it does not follow that the incidence of the employer tax falls on wage earners in exact proportion to the earnings on which the tax is paid. The incidence of the tax will depend in specific instances on a variety of complex factors. The employer tax, therefore, may be looked on as being for the use of the system as a whole, and not as a matching contribution that is to be credited to each particular employee on the basis of the amount he paid.¹⁷

On this ground the employer's tax was disregarded by the chief actuary in his memorandum suggesting that most earners are scheduled to get more than their "money's worth."¹⁸ However, even if it is agreed that precise imputation of the burden of the employer tax to individuals is not possible it is apparent that omission of this part of the

¹⁴ Employers are probably not totally indifferent concerning this. They may be willing to pay somewhat more toward a retirement fund than in basic wage increases because this may save them charitable obligations later, or because they basically believe forced saving is a good thing.

¹⁵ This does not imply that the demand and supply conditions yield a unique determination of the compensation level. They may tend only to determine a bargaining range. (See, e.g., William J. Fellner, "Prices and Wages Under Bilateral Monopoly," *Quarterly Journal of Economics*, vol. 61, August 1947, pp. 503-532). The point is that the employer has no reason to react much differently to the tax and other labor costs, respectively.

¹⁶ An attempt by labor to resist this tradeoff process could maintain the basic earnings rate at the expense of increased unemployment and reduced aggregate earnings. However, this resistance would not occur if the labor supply were highly inelastic, or if labor bargained in terms of total compensation in the first place.

¹⁷ President's Proposals for Revision of the Social Security System, *op. cit.*, p. 330-31.

¹⁸ *Op. cit.*, pp. 331-46.