tax is bound to produce seriously misleading results. Even if the proceeds are "for the use of the system as a whole" it does not follow that the tax is a burden to no one. In other words, the concern here is with the cost of the tax to the individual worker and not with the cost to the system of the ultimate benefit to that worker. It is difficult to understand an analysis which agrees that the employer tax "is borne in considerable part by employees" and yet ignores it in evaluating the tax paid by individuals.[19] If it is paid by employees as a group it must also be paid by them as individuals, and it seems better to make an imperfect imputation which is roughly right rather than to settle for being precisely wrong.

Another implication of the exclusion of the employer tax should be noted. The Myers memorandum discusses the tax on various earnings levels. When no employer tax is imputed to a group of earners such as the substantial number paying the maximum employee tax, this implies that lower income earners bear more than their proportional share of this tax if it is agreed that the tax is borne by employees as a whole. If so, the lower income employees as a whole would pay even more than double the employee tax and their "deal" would be much less good than suggested in the memorandum. Since there is no reason to expect that this anomaly exists and the employer tax cannot be realistically ignored, there seems no better alternative than to impute the employer tax to employees in proportion to the employee tax. This is in accord with the original theory, since even at the individual level we presume that the larger the employer tax the less the compensation of other types which can be extracted by the employee.

B. THE BASIC MODEL*

If the above reasoning is correct, the method underlying the tax-benefit ratios presented in the Myers memorandum is biased in two opposite directions. Failure to allow for the longer growth of benefits than taxes during a worker's lifetime undervalues the "deal" expected for a participant in the system, whereas excluding the employer tax presumably borne by the worker overvalues the arrangement. An attempt will be made in what follows to circumvent these opposing biases.

In this section, and the following, the stress is on *average* taxes and benefits per worker under assumed growth patterns, and it is assumed that the average earner pays the average tax. This per capita approach abstracts temporarily from the ceiling on taxable earnings and variations in the relative position of different types of earners, and focuses on earner-beneficiary transfers. It also must be acknowledged that introduction of assumptions concerning growth of the system introduces an element of arbitrariness into the analysis. However, it seems likely that almost any plausible growth assumptions will provide a more

[19] This has its counterpart in the treatment of undistributed corporate profits by some writers on the size distribution of individual incomes. Although it is the common saving of stockholders as a whole these writers refuse to impute it to individuals. This pretense that corporate saving is nobody's income understates the relative income share of high income ranks.

*This section reports the methodology developed to estimate the rates of return. It may be omitted by readers more interested in the findings rather than their technical basis.