

seems tolerable for provision of the basic retirement floor. This avoids the uncertainties connected with a funded equity program and permits retention of some generally acceptable redistributive features not likely to survive the more precise individual earmarking to be expected under funding. On the other hand the larger this compulsory saving under social security the less earners will be able to invest privately in mutual funds or other devices for periodic investment in higher yielding equity capital. This consideration is at least relevant to determination of the optimum size of the social security program.

It is essential to stress, also, that the 4-percent yield itself is hardly a riskless proposition. Aside from the fallible growth rate projections, there is not at present any guarantee that benefits will keep pace with earnings as postulated in the present model. The social insurance package would look more attractive if the taxpaying population were guaranteed that the future earners would pay enough to allow their retirement income to keep pace. In the absence of such assurances, younger workers are likely to be more impressed by Colin Campbell's analysis of existing and proposed tax and benefit schedules than by the hypothetical projections of the model discussed here. The raw deals he portrays cannot be ruled out without a public commitment to tie current benefits to current earnings indefinitely. Without such guarantees continued grumbling by younger workers can be expected.

The lack of intergenerational contractual obligations is not the only ground for discontent on the part of social security taxpayers, however. Although there is a modest degree of progression in the yield-earnings relationship, the yields at the low end of the income scale are probably highly unattractive to the poor. Low-income families frequently choose, or are compelled, to borrow at very high interest rates. It is, therefore, difficult to justify forcing them to save, even at a real interest rate of 7 percent under social security; they may at the same time (and in part as a consequence) be borrowing at 36 percent or more. In the context of a war against poverty it is an anomaly that a 10-percent combined employer-employee payroll tax is collected on a \$2,500 income of a family of four even though this family is recognized as incapable of paying any income tax. The payroll tax is regressive because of the earnings ceiling and especially burdensome to the working poor who get little offsetting help from welfare. Whatever the ultimate payoff at age 65, the magnitude of this compulsory saving can hardly be regarded as trivial by workers living in an income range we have defined as poverty.

It seems appropriate to accept as a working hypothesis that the young poor family discounts its projected retirement income at a very high rate. A 6 or 7 percent ultimate real yield on the 10-percent contribution paid by the young \$2,500 earner may sound attractive to some policymakers, but who would presume to call this worker a profligate glutton if he would rather have the 10 percent *now*?

The import of this reasoning is not that participation in the social security program should be made voluntary: this would have the virtually certain result that many people would reach retirement age with few resources and poor prospects. Rather, the heavy and re-