gressive burden of the present payroll tax structure on the working poor deserves recognition and alleviation. Despite the durability of the "insurance principle" the present tax-benefit package is already progressive and can be made more so by reforming the payroll tax. One proposal already receiving attention calls for financing part of the social security program out of general revenues. However, this would not eliminate the taxation of poor families. This could be accomplished by a more far-reaching measure which would allow the payroll tax to be credited against the income tax and include refunds in cases in which the payroll tax was the larger. As a more modest alternative the payroll tax itself could be graduated. An attractive and less far-reaching reform aimed simply at ending this taxation of the poor would be institution of exemptions under the payroll tax. Appropriate exemptions would be those implied by the currently reigning definition of poverty. Some other countries have already moved a step in this direction by including a taxable floor in addition to a ceiling. The exemption device would be more equitable because of its allowance for family size and structure.

Since consideration is already being given to raising the taxable ceiling, this would seem an ideal time to introduce exemptions. Part of the loss in revenue due to exemptions could be recouped by a higher ceiling and the rest by a higher rate on the reduced base. Exemption each year of some portion of everyone's income from the tax base used in computing the tax on both employees and employers would eliminate a substantial tax on people we have already designated as poor, even before they pay the tax. It would even make the effective tax rate mildly progressive among incomes below the taxable maximum. It is true that this policy would move social security financing somewhat further away from the "contributory principle" long advocated by social security specialists. However, the connection between individual payments and benefits is already extremely tenuous in the present system, and this does not appear to have weakened the program. The main advantages claimed for the contributory principle can be achieved simply by keeping aggregate payments abreast of aggregate benefits.

The present system already recognizes that some covered workers should not be taxed at all during a given year. A worker unemployed through disability or otherwise for an entire year pays no tax, but will ordinarily lose no retirement benefits. The exemption device would simply extend the exemption level from zero income to the poverty level. In deference to the "contributory principle," it might be desirable to retain a token contribution in the exemption range, but at a rate more like 1 percent than the current 10 percent. In any case the main point is that families found to be in poverty should not be forced to contribute substantially even though their projected return under social security may appear attractive to others more fortunately situated in the income distribution.

In conclusion it should be reiterated that the projected yields, reported above, are based on an abstract model of earnings and benefit growth that is no more than a rough approximation of past reality. If the model and the official demographic projections are fairly realis-