system would involve a deferral of tax from the time when the contribution was made until when the benefits were received. But, since the OAI program is operated on the basis that contributions should approximately equal benefits in each year, there would be no deferral of adjusted gross income for the Treasury.

An income insurance system such as OAI basically makes transfer payments from those who are working to those who are retired. Any given individual who works and contributes to the system may never receive retirement benefits should he die before retirement age. A tax on his contributions would be a levy on something that leads neither to his consumption of goods or services nor to a change in his net worth. He does enjoy a peace of mind knowing that if he lives to retirement, income will be forthcoming; but, this benefit, to a small degree, is a result of the service by the insurance agency and, to a large degree, stems from the transfer of payments from one group to another. The average recipient of benefits today gets back, tax free, far more than the contributions on which he paid tax, but increasingly many covered workers will pay income tax contributions which they will never see matched in equal payouts.

If a worker had received, through 1966, the maximum wage subject to OASDI tax since taxes were first collected in 1937, he would have paid in social security taxes $2,384.20, all of which would have been includable in his adjusted gross income and could have been subject to income tax. His expected benefits, if he and his wife had retired at age 65 in 1967, would be over $30,000. If he and his wife enjoyed normal life expectancy, he would have paid income tax on only 8 cents of every dollar he received. The Treasury estimates that for persons retiring in 1966, as much as 89 percent of their OASI benefits would have been includable in adjusted gross income if these benefits were treated like other retirement benefits (13, p. 14).

The proposed tax treatment would result in a much larger tax base because all benefits would be included in adjusted gross income while only contributions by employees and self-employed persons are now included. However, because those who receive benefits are likely to have lower incomes at the time of receipt, the tax rates and total taxes collected could be lower. In 1957, Muntz estimated that the taxation of benefits and the tax exemption of contributions would produce a net revenue decline of about $300 to $400 million (3, pp. 357–358). Table I compares contributions with benefits for 1965.

TABLE I.—OASI CONTRIBUTIONS AND BENEFITS, 1965

[In millions of dollars]

	Contributions	Benefits
Employee contributions	7,440	
Employer contributions	7,618	
Self-employed persons contributions	959	
Old-age retirement benefits		12,542
Survivorship benefits		3,979
Lump sum payments		217
Total	16,017	16,738

Source: Social Security Bulletin, Annual Statistical Supplement, 1965, pp. 6, 9.