

SOME ECONOMIC EFFECTS OF HIGH TAXES FOR SOCIAL INSURANCE

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I. INTRODUCTION

Some people maintain that a dog around the house poses little trouble relative to the pleasures of pet ownership. But, more than one softhearted householder has found himself permanent heir to multiple descendants from an original pet. As the size of the pet population increases, small irritations become transformed into major problems, even though each successive animal may not differ from the original in any significant respect. The owner discovers that minor defects inherent in any pet and perfectly tolerable in small quantities at some point in an expansion become overwhelmingly disruptive.

Something of the sort threatens in the case of the payroll tax which finances the social security system.¹ No one can pinpoint the particular stage at which the shortcomings of the social security tax turn into serious problems, but it seems likely that the crucial period has already arrived, or certainly will arrive before the final stage of the presently scheduled increases has taken effect. When receipts from a tax account for 17 percent of total internal revenue collections, are 72 percent the size of the collections from the corporation income tax and 37 percent the individual income tax—as Treasury estimates for the OASDHI tax in fiscal 1967—then the tax surely has grown large enough that its effects become meaningful to the economy. When a tax has reached a level at which it can exert an important influence on business and family decisions, then surely the time has come to examine its characteristics carefully. We should consider to what extent this tax may be counterbalanced by other factors operating in the economy, whether its advantages compensate for its disruptions, how it might be modified, and then take appropriate action. Yet, very little attention has been directed to the tax aspects of the social security system since the early 1940's, although the other side of the coin—benefits—has evoked almost continuous discussion and publications.

This paper considers some of the economic distortions which might follow when the social security tax is levied at a high enough rate for its effect to be significant. The problems involved in changing to some

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NOTE: The views expressed in this paper are the author's and do not necessarily reflect the views of the Tax Foundation.

¹ The term "social security" as used in this paper encompasses only the Federal old-age, survivors, disability, and health insurance (OASDHI) program, although in the national income accounts social security includes unemployment insurance, railroad retirement, civil service retirement, and other public systems.