other form of financing are examined, and some tentative suggestions for avoiding or reducing the more dangerous effects are offered.

The nature of the social security tax is such that its effect must be considered in the personal world of individual households and families as well as in the world of business and industry. Undeniably, these two sectors of the economy intertwine endlessly, but even the most simple story cannot be told in one breath. Since the effect of the OASDHI tax on the economy is far from simple, the analysis will be divided into two artificial groupings: the tax on employers and the tax on employees.

II. The Tax on the Employer

A corporation employing 10 persons, with net profits up to $13,000, pays more social security tax than Federal income tax.[2] The break-even point for a 15-employee firm lies at $19,773: for a 20-employee firm, at $26,154. Since no figures are available for net profit by employee size, one can only speculate how many firms fall below these break-even points. Clearly new businesses, those engaged in labor-intensive lines, and loss firms are most likely to accrue OASDHI tax liability in excess of their Federal income tax liability.

OASDHI taxes need not exceed corporation incomes taxes, however, before they exert pressure on entrepreneurial decisions. As a levy on a specific factor of production, this tax qualifies as a prime candidate for the deflection of business choices whenever its absolute amount reaches high enough levels that adjustments to reduce the tax become practical.

Taxes can exert an effect on the economy in two broad ways: (1) The taxpayer may take action to reduce the tax's pinch on himself, and his tax-reducing activity then initiates repercussions in the economy; or (2) the taxpayer may decide he cannot mitigate the effect of the tax (or learns from unsuccessful attempts that he cannot do so) and then makes adjustments to the lower income position in which he finds himself. The effects on the economy in case of (2) will not differ under two kinds of tax (say, a payroll tax and an income tax) of equal yield, provided the same taxpayers are subject to both taxes. But in case of (1), the nature of the tax can make a considerable difference in the available avenues of escape and the consequent effects on the economy. One would expect particularly differentiated behavior when the tax (viewed from the perspective of the employer) applies to a specific factor of production, as does the payroll tax financing the OASDHI system.[3] As it turns out, the OASDHI tax not only induces some general effects unlike those from other taxes; it appears also to affect one industry quite differently from another.

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[2] Counting the matching employer portion only and assuming salaries of $6,600 or more. Throughout this section generally, the assumption is made that the employer must contend with that portion of the tax levied directly on him, and only that portion. In at least one case, however, employees apparently were able to shift their tax to employers, and the possibility should be considered that the figures mentioned in this section should, at the outer limit, be doubled to take account of the contingency that employees may shift some or all of the tax to employers in the form of higher wages: (See Elizabeth Deran, "Changes in Factor Income Shares Under the Social Security Tax," scheduled to be published in the November 1967 Review of Economics and Statistics.)

[3] The same tax when viewed from the perspective of the employee applies to earnings but differs sharply from any income tax to which he ordinarily may be subject.