

taxed on any criterion. All three ratios are in the first or second quartile—i.e., lightly taxed relative to the median—for metal mining, oil and gas extraction, and four lines of manufacturing—food and kindred, paper and allied, primary metal, transportation equipment. All three ratios fall into the third or fourth quartile—i.e., heavily taxed relative to the median—for anthracite mining, and the manufacturing of four kinds of products—textile mill; lumber and wood; apparel, leather, and leather products; and stone, clay, and glass.¹¹

For the majority of industries, the three measures indicate a mixed position. Perhaps these differences yield some hint as to which tax-adjusting action these industries are most likely to take. For instance, a firm whose T/W lies in the bottom quartile but whose T/VA and T/VS, in the upper ranges, might have more incentive to try to reduce wages or introduce laborsaving equipment. Conversely, a low T/VS and a high T/VA and T/W might incline a firm more toward attempting price increases.

ESTIMATED RESOURCE MISALLOCATION

The preceding material points up an important disadvantage of the social security tax: an undeniable lack of neutrality. We can reasonably anticipate that the interindustry tax rate differentials, and opportunities for successful tax-adjusting behavior, will lead to changes, with the net result a waste of some resources. Assuming that the pretax pattern of production (in terms of input techniques and output composition) was as efficient as possible under all existing constraints aside from the tax, then any changes made in response to the tax necessarily will move the economy to a less efficient position.¹²

Some notion of how much tax distortions cost the economy can be obtained by applying a method developed by Harberger for a similar purpose in connection with the corporation income tax.¹³ Harberger has observed that "meticulously exact" results necessarily elude the economist who aspires to measure waste, but adds that even estimates with "substantial error" can be helpful in areas where intuitive judgment is the alternative.¹⁴ It is in such a spirit that the computations in table 4 are presented. The absolute figures should be considered a first approximation of the roughest sort, but nonetheless a better guide to the underlying reality than the alternative—an uninformed guess.

¹¹ In the case of those industries for which only T/W and T/S could be computed, both measures fell into Q1 or Q2 for three lines (merchant wholesalers, auto dealers and service stations, and miscellaneous repair services) and into Q3 or Q4 for four lines (eating and drinking places, hotels and lodging places, personal service, amusement and recreation).

¹² It is my tentative belief, developed at greater length under the effect on the employee, that such pretax efficiency does not necessarily exist, as a consequence of ordinary human inertia. Under such circumstances, a tax increase can have a triggering effect on the taxpayer, forcing him to take advantage of maximizing opportunities which have developed since he last assessed his position, and possibly improving economywide resource allocation.

¹³ Arnold C. Harberger, "The Corporation Income Tax: An Empirical Appraisal," in U.S. Congress, Committee on Ways and Means, Tax Revision Compendium, November 1959, pp. 231-250.

¹⁴ Harberger, "The Measurement of Waste," *American Economic Review*, May 1964, pp. 58-76.