recognized that substantial numbers of the elderly depend almost entirely on their OASI pensions.

For example, consider the archetypal cases of three sisters, all widows on social security, whose personal circumstances neatly illustrate the problem and point a way to a solution. Mrs. A was married to a barber, a wonderful man who told marvelous stories but never was able to save a dime. Mrs. A quickly ran through the few assets he left, and really can't live on her pension. Her highest skill is babysitting. Her sister, Mrs. B, is a competent woman with a keen business sense who was left a good farm. She would very much like to operate the farm herself, but instead, because of earnings limitations, must rent it if she wants to collect her OASI pension. She has enough income, but worries constantly about the failure of her tenant to take a long-run view in his management of the farm. Mrs. C, on the other hand, married a man who died a millionaire; so, she has no worries about money at all.

The question is, should the pensions of Mrs. B and Mrs. C be increased so that Mrs. A can live decently? When the problem is put in the perspective that comes from thinking about real people (as distinct from "the elderly" or "the poor"), it is clear that Mrs. A's needs should be met in a framework that would not waste funds on the other two. Mrs. A needs welfare; the other widows do not, although Mrs. B would benefit from an easing of the earnings limitation. It would be wasteful to extend welfare to all three in the form of social security benefits high enough to meet Mrs. A's need.

How high, then, should benefits be? The answer, I think, is that they should be as high as can be supported by today's level of payroll tax—which, after the adjustments suggested in the next two sections, may be considerably higher than present levels. Anything more should be treated as welfare, and handled outside the social security framework.

THE INTERGENERATION TRANSFER

No one now receiving an OASI pension has paid social security taxes all his working life. In fact, a 21-year-old man who entered the labor force when the social security system first began in 1937 will not normally retire until 1981. The consequence, as shown in table 6, is that the cumulative value of taxes at 3.5 percent compound interest falls quite a bit short of the discount value, also at 3.5 percent, of probable benefits in the case of pensioners retiring relatively early. Generally, single individuals retiring before 1990 and married men retiring before 2010 receive a windfall. But, the table also illustrates who pays for the windfall: the younger participants, the value of whose taxes massively exceed their probable benefits. For instance, if he lives out his normal lifespan a single male entering the work force in 1965 will pay (not counting matching payments from his employer) OASDI taxes with about $12,800 more than the discounted benefits he can expect, computed on the basis of implicit 3.5 percent interest under existing law.

Where does the $12,800 go? No chicanery is involved: someone has to pay for the pensions of those who have not been covered by the system long enough to pay their own way competely. This transfer of funds from the younger generation to the older generation is an extremely important reason for the present high rates of tax.