

and especially among the latter there is considerable variation in family size and hence in income needs. For example, the low-cost-level income of a one-person nonfarm family is approximately \$1,800; for the seven-person nonfarm family with five children under age 18 it is approximately \$6,200. Aged families receive most of the transfer payments under the old-age income assurance programs but nonaged families pay most of the old-age income assurance program taxes. It can be seen that the differences in income needs between aged and nonaged and between transfer recipients and taxpayers are quite significant and that the differences in income needs within these groups are also quite significant. Thus it is important to adjust for these differences and the use of welfare ratios is one way of making such adjustments.

TABLE 1.—DOLLAR EQUIVALENTS OF WELFARE RATIOS FOR DIFFERENT NONFARM FAMILIES WITH MALE HEADS, 1960-61 AVERAGES

Welfare ratio	1-person family with head under age 65	4-person family with 2 children under age 18	7-or-more-person family with 5 children under age 18
\$0.50	\$960	\$1,939	\$3,094
.75	1,440	2,908	4,641
1.00	1,920	3,877	6,188
1.50	2,880	5,816	9,282
2.00	3,840	7,754	12,376
2.50	4,800	9,693	15,470
3.50	6,720	13,570	21,658

It is assumed that there is no shifting of transfer payments. Some shifting of transfers occur, but our knowledge about its nature and extent is so limited that in this study it seems best to abstract from this shifting problem. The shifting of transfer payments takes various forms. Transfer payments cause reductions in earnings via reduction in work effort, reduction in contributions from relatives, and reduction in other transfer payments (e.g., higher social security benefits may result in lower public assistance payments). These types of shifting generally tend to reduce the progressivity of transfer payments. The tax incidence assumptions used in this paper are fairly similar to those used in most other tax burden studies.

The trust fund programs analyzed in this paper (social security, Government and railroad pensions, and private pensions) cause aggregate demand changes. Accordingly, it was assumed that the Federal Government changes its general taxes proportionately in order to offset the inflationary or deflationary effects of these programs. We denote the earnings tax or contribution as the "unadjusted tax or contribution." The tax or contribution plus the personal income tax paid on the pension income minus the decrease in Federal personal income resulting from backward shifting of employer taxes or contributions plus the change in Federal general tax revenue resulting from the offsetting proportional change in Federal tax rates is the "adjusted tax or contribution." We denote benefits minus unadjusted tax or contributions as "unadjusted net benefit" and benefit minus adjusted tax or contribution as "adjusted net benefit." For the trust fund programs (social security, government civilian, and railroad pensions, and private pensions) this paper analyzes the distributional effects of both unadjusted and adjusted taxes or contributions and net benefits. It might be argued that the increase in the balance of the trust funds should be allocated