sioner in relation to other pensioners as well as the relative income of all pensioners vis-a-vis the active work force.

To achieve these objectives, German social insurance pensions are based on the following economic variables: (1) The ratio of the lifetime covered earnings of the individual to the covered earnings of all individuals during the same period; (2) the individual's number of years of work in employment covered by social insurance; and (3) the average level of covered earnings of all individuals at the time of a particular person's retirement. The pension at retirement is simply the product of these variables multiplied by a constant specified by law. Once in force, the pension becomes a function of the growth of average earnings in the county. This relationship is not automatic but depends on annual reviews.

The German social insurance system clearly tends to bring about a significant redistribution of income between those on pensions and those still at work. If we assume that incentive is mainly a function of relative earnings, this is not likely to have adverse incentive effects, although the relatively high pension levels are bound to affect the pattern if not the level of consumption, saving, and capital formation. The argument that may be advanced against the German system is that it does not redistribute income enough among individuals, that it extends into retirement the income inequalities that were generated by the market system during the working years. The validity of this argument, however, must be tested on social and political grounds rather than in the economic sphere. Actually, more redistribution takes place than is implied in the model which I have presented because of child supplements to the pension and because years of illness, training, and involuntary unemployment are counted as years of work.