

before this century is over. Such rapid changes when their impact is felt upon our retirement programs will affect the funds available for investment and therefore the base for growth in our industrial system.

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Social security serves two related but conceptually distinct objectives. The first is to guarantee minimum income support for the aged, the disabled, and dependent survivors. In recent years, the success of the program in achieving this welfare goal has been increasingly judged by the degree to which it keeps beneficiaries out of poverty. The second objective is to help moderate the decline in living standards when the earnings of the family head cease because of retirement, disability, or death. This earnings replacement objective is independent of the goal of preventing poverty; benefits go to families at all income levels. Both objectives of social security must be carefully defined because acceptance of the current program and proposals for improving it hinge on the public's evaluation of their comparative importance.

In one view of the world, social security must, by assumption, "distort" the allocation of consumption and is, therefore, an unjustified interference with individual choice. Many persons may be forced to "save" more of their income than they would desire. In the extreme case an individual with no dependents who is certain he cannot survive to retirement age would "prudently" save nothing for his retirement. Yet social security taxes deprive him of the opportunity to dispose freely of a substantial part of his income. Social security also interferes with the freedom of workers to decide how to invest that portion of their income claimed by social security taxes. If they are skilled investors, they might use these funds to purchase assets with yields higher than the returns which social security implicitly provides. Such individuals would not gain from social security; actually, they may have a lower total income in retirement.

Although attractive to anyone who values individual freedom in making economic decisions, this conception of the role of individual choice in providing for retirement is unrealistic. It does not take account of the fact, which even the most severe critics of social security will generally concede, that voluntary savings cannot yield the poor worker (i.e., the workers whose income is close to the amount necessary for subsistence) an income sufficient for retirement. Furthermore, even individuals who have sufficient earnings during their working lives may have insufficient savings at retirement either because they incorrectly gage their retirement needs or because their personal investments turn out badly.

Once society agrees on a minimum income guarantee, however, a further decision is required on the conditions under which the guarantee will be provided. The Government can either provide minimum subsistence payments to each eligible person regardless of his other income or it can make them available only if his income falls below a stipulated level. The former method—the universal demogrant—