is followed in Canada and some other foreign countries. The latter method—the welfare approach—is exemplified by the public (including old age) assistance programs in the United States.

The welfare method has one great advantage over the universal demogrant: if the proportion of the aged requiring Government help is small and if the administrative cost of determining need is not excessive, the objective of preventing destitution is accomplished at minimum expense by limiting payments to those with demonstrated need. Nonetheless, the welfare method has been rejected by most people because of two aspects. First, a welfare program separates people into two groups—those who support themselves and those who require Government help. Second, the welfare method may weaken individual incentives to save for retirement needs. The price of rejecting the welfare method of dealing with the aged poor is vastly higher expenditures to attain the same objectives. This price should be explicitly acknowledged as the cost of avoiding the humiliation of the means test and any discouragement of private savings that might occur.

The argument thus far supports the establishment of a Government program that guarantees a minimum of income support for the aged, but many of the characteristic features of the social security system go much further. While minimum benefits fall well below the officially defined poverty thresholds, benefits at the upper end of the scale are above subsistence levels and bear some relationship to the individual's lifetime earnings. A number of arguments have been made in support of such a system; in combination they add up to an impressive case.

Decisions about saving for retirement are vastly more difficult than nearly any other economic decision which most people are called upon to make. They depend upon subjective appreciation of wants in a much later period—possibly four or five decades. They require an individual to consider his future stream of earnings and other income and to recognize several possibilities: that he will be married and have a family; that he may be unemployed involuntarily for considerable periods of time; and that he may become disabled or die prematurely. To save intelligently, the individual must also be able to appraise the probable future purchasing power of the income from various assets. Most important of all, the individual may not be aware of his mistakes until he is close to retirement when the consequences are irremediable.

Even if an individual plans ahead and gages accurately his retirement needs, it is questionable that he has sufficient knowledge about other relevant considerations to make the necessary saving consumption decisions. Deficiencies in Government economic policies that permit depressions and inflations may sweep away the carefully planned saving of even the most provident and skillful investor. The available evidence suggests that the problem of uncertainty may explain why people do not save enough. A person who is saving for retirement generally faces the investment dilemma of choosing between fixed-yield assets that offer little protection again inflation and other instruments that require financial sophistication or carry considerable risk.

Given the limited coverage of private pension plans, the inadequacy of their benefits for many covered workers, and their other