

these are all dwarfed by past long-run yields on equity. In any case, it should be acknowledged that a comparison of the 4-percent projection with the yield on equity is artificial in some respects. A public retirement scheme comparable to a private plan such as that developed by the Teachers' Insurance and Annuity Association, which provides for equity investment, is not feasible under a pay-as-you-go system. The present active population would not only have to finance pensions for the currently retired but also would contribute to a mammoth equity trust fund. Furthermore, there is no reason to believe the high real yields earned on equity in the past would be impervious to the large new demand for securities which would be generated. The bidding up of price-earnings ratios (while cutting dividend rates) would probably yield real capital gains at the outset but a highly unstable situation would be in prospect as selling of equities by the retired population began to offset buying on behalf of earners.

As a substantial improvement on the past yields on fixed claims a 4-percent real return under a pay-as-you-go social security program seems tolerable for provision of the basic retirement floor. This avoids the uncertainties connected with a funded equity program and permits retention of some generally acceptably redistributive features not likely to survive the more precise individual earmarking to be expected under funding. On the other hand, the larger this compulsory saving under social security the less earners will be able to invest privately in mutual funds or other devices for periodic investment in higher yielding equity capital. This consideration is at least relevant to determination of the optimum size of the social security program.

It is essential to stress also that the 4-percent yield itself is hardly a riskless proposition. Aside from the fallible growth rate projections, there is not at present any guarantee that benefits will keep pace with earnings as postulated in the present model. The social insurance package would look more attractive if the taxpaying population were guaranteed that the future earners would pay enough to allow their retirement income to keep pace. In the absence of such assurances, younger workers are likely to be more impressed by Colin Campbell's analysis of existing and proposed tax and benefit schedules than by the hypothetical projections of the model discussed here. The raw deals he portrays cannot be ruled out without a public commitment to tie current benefits to current earnings indefinitely. Without such guarantees continued grumbling by younger workers can be expected.

The lack of intergenerational contractual obligations is not the only ground for discontent on the part of social security taxpayers, however. Although there is a modest degree of progression in the yield-earnings relationship, the yields at the low end of the income scale are probably highly unattractive to the poor. Low-income families frequently choose or are compelled to borrow at very high interest rates. It is therefore difficult to justify forcing them to save, even at a real interest rate of 7 percent under social security; they may at the same time (and in part as a consequence) be borrowing at 36 percent or more. In the context of a war against poverty it is an anomaly that a 10-percent combined employer-employee payroll tax is collected on a \$2,500 income of a family of four even though this family is recognized as incapable of paying any income tax. The payroll tax is regressive because of the earnings ceiling and especially burdensome to the work-