

ing poor who get little offsetting help from welfare. Whatever the ultimate payoff at age 65, the magnitude of this compulsory saving can hardly be regarded as trivial by workers living in an income range we have defined as poverty.

The import of this reasoning is not that participation in the social security program should be made voluntary; this would have the virtually certain result that many people would reach retirement age with few resources and poor prospects. Rather, the heavy and regressive burden of the present payroll tax structure on the working poor deserves recognition and alleviation. Despite the durability of the insurance principle the present tax benefit package is already progressive and can be made more so by reforming the payroll tax. One proposal already receiving attention calls for financing part of the social security program out of general revenues. However, this would not eliminate the taxation of poor families. This could be accomplished by a more far-reaching measure which would allow the payroll tax to be credited against the income tax and include refunds in cases in which the payroll tax was the larger. As a more modest alternative the payroll tax itself could be graduated. An attractive and less far-reaching reform aimed simply at ending this taxation of the poor would be institution of exemptions under the payroll tax. Appropriate exemptions would be those implied by the currently reigning definition of poverty. Some other countries have already moved a step in this direction by including a taxable floor in addition to a ceiling. The exemption device would be more equitable because of its allowance for family size and structure. In any case, the main point is that families found to be in poverty should not be forced to contribute substantially even though their projected return under social security may appear attractive to others more fortunately situated in the income distribution.

It should be reiterated that the projected yields reported above are based on an abstract model of earnings and benefit growth that is no more than a rough approximation of past reality. If the model and the official demographic projections are fairly realistic, new contributors will in the aggregate get neither a very good buy nor a very bad one but will fare moderately well. The evaluation of the redistributive features of the system is more subjective and depends upon whether one thinks in terms of lifetime rates of return or separate tax and benefit structures. From either viewpoint, however, a guarantee that benefits will keep pace with earnings and the alleviation of the burden of the payroll tax on the poor would contribute to making social security a substantially more attractive institution.

DAVID DONALDSON: ON THE OPTIMAL MIX OF SOCIAL INSURANCE PAYMENTS

Economists are given to thinking in terms of perfect markets. When markets are perfect many things don't matter. These things are practically the whole business of public-policymakers. A justification for social insurance is that insurance markets are poorly developed and one cannot purchase protection against all risks. Insuring, used in this sense, is an activity engaged in by everyone. Although in a perfect market one can sell goods received in kind and thereby secure