

income; and, even in a period of unemployment, a better policy might be to increase effective demand rather than to encourage people to leave the labor force.

The tax measures that have been discussed do not exhaust the forms in which preference is given to older persons. There are or have been other provisions that give liberal medical deductions, reduce the property tax on homes of the elderly, and exempt from tax gain from the sale of a residence, but these are minor factors in the total tax picture. The tax measures that have been discussed at length and the tax treatment of closely related forms of income such as that from self-employment retirement plans, military retirement benefits, civil service retirement benefits, et cetera, are the source of most of the tax benefits.

ELIZABETH DERAN: SOME ECONOMIC EFFECTS OF HIGH TAXES FOR SOCIAL INSURANCE

No one can pinpoint the particular stage at which the shortcomings of the social security tax turn into serious problems but it seems likely that the crucial period has already arrived or certainly will arrive before the final stage of the presently scheduled increases has taken effect. When receipts from a tax account for 17 percent of total Internal Revenue collections, are 72 percent the size of the collections from the corporation income tax and 37 percent the individual income tax—as Treasury estimates for the OASDHI tax in fiscal 1967—then the tax surely has grown large enough that its effects become meaningful to the economy. When a tax has reached a level at which it can exert an important influence on business and family decisions then surely the time has come to examine its characteristics carefully. This paper considers some of the economic distortions which might follow when the social security tax is levied at a high enough rate for its effect to be significant. The problems involved in changing to some other form of financing are examined and some tentative suggestions for avoiding or reducing the more dangerous effects are offered.

Taxes can exert an effect on the economy in two broad ways: (1) the taxpayer may take action to reduce the tax's pinch on himself and his tax reducing activity then initiates repercussions in the economy; or (2) the taxpayer may decide he cannot mitigate the effect of the tax (or learns from unsuccessful attempts that he cannot do so) and then makes adjustments to the lower income position in which he finds himself. The effects on the economy in case of (2) will not differ under two kinds of tax (say, a payroll tax and income tax) of equal yield, provided the same taxpayers are subject to both taxes. But in case of (1) the nature of the tax can make a considerable difference in the available avenues of escape and the consequent effects on the economy.

Since the OASDHI tax applies to wages and salaries, an employer can reduce his tax liability by changing his factor mix so as to reduce labor utilization in achieving a given production goal. The most obvious approach lies in the introduction or expansion of labor saving capital equipment. The practicability of such an adjustment, however, depends heavily on industry conditions.