

Estimates of the cost of the tax distortion, based on two probably unrealistic but computationally helpful assumptions, appear in column 4. These two assumptions are (1) that employers pass the tax forward in the form of price adjustments and (2) that the price elasticity of demand approximates unity in all industries concerned. Granted these assumptions, it follows that, because the tax induced change in price results in an equal percentage change in quantity in the opposite direction, production will be higher in an undertaxed industry and lower in an overtaxed industry than under neutral taxation.

The preceding discussion makes it clear that the OASDHI tax, like any other tax, exhibits the usual quota of faults, all of which become more acute as the level of the tax rises. In view of these shortcomings, should we abandon the present method of financing the social security system by turning in part to general revenue financing as some have suggested? For all practical purposes, general revenue financing amounts to income tax financing. The choice between financing additional benefits by increasing one tax rather than another looks like the Scylla-Charybdis passage. For instance, one might prefer the income tax because it allows new firms to develop but, since the income tax also allows insufficient marginal firms to continue to operate, perhaps the OASDHI tax with its harsher treatment of marginal firms would be preferable. The income tax and payroll tax, in fact, would appear to be a nicely complementary pair as long as both are kept below seriously repressive levels. In any event, it obviously would be unrealistic to contend that the faults of the social security tax exert a more oppressive effect than those of the income tax, since both can exhibit extremely unpleasant characteristics as rates increase.

In the past, three important factors have led to the need for increasing taxes to finance the social security system: (1) the anticipation that benefits must be increased to maintain a decent standard of living for our elders; (2) the intergeneration transfer, which will continue to some degree until the early part of the next century; (3) the inter-bracket income distribution, which has been quietly increased in intensity with resultant changes in the entire philosophy of the system. The time has come to consider the matter of increasing benefits in a realistic framework. The basic problem stems from considering the social security pension as providing the older persons entire support rather than as the floor it was originally meant to be and in fact is for many of the retired.

One comfort about the intergeneration transfer problem is that time alone will heal it, provided, of course, it doesn't damage the system irreparably before then. Something along the line suggested by Professors Buchanan and Campbell might reduce the current strain on the system: a bookkeeping adjustment which would treat the cost of the intergeneration transfer as a national debt (and hence chargeable against general revenues) rather than an obligation on the social security trust fund. This done, it likely would be possible to reduce social security taxes while maintaining present benefits or, alternatively, increase benefits considerably while freezing rates at the present level.

The redistribution element has gradually increased over the years, particularly with respect to those pensioners receiving benefits determined by the legal minimum. Obviously, not even an ascetic could manage on the present \$44 per month or even on the \$70 suggested