Social Security in the Coming Decade: Questions for a Mature System

by JUANITA M. KREPS*

The Robert M Ball Lecture Series, established in 1973 as a tribute to the former Commissioner of Social Security, was designed to present the ideas of distinguished leaders in the field of social policy to the staff of the Social Security Administration and their guests The second of the lectures, presented essentially in full below, was given by an author-researcher widely known for her work in the areas of labor, manpower, social insurance, and income maintenance

Professor Juanita Kreps summarizes the 40-year history of the United States social security program, discusses demographic shifts in today's society, and questions how well the program is understood by the general public She deals with the questions of income transfer between generations, the declining proportion of workers to retirees, and delayed retirement age

There is really no way to support retired Americans comfortably and cheaply.[1]

FOR A 40-YEAR-OLD, social security retains a remarkable capacity to catch the public eye Perhaps no other legislative mandate has held our interest so consistently; certainly, none has touched our lives as intimately. Almost no one in the course of his or her lifetime will be beyond the reach of this law, passed four decades ago in an era of depression-inspired social reform. Indeed, the social security system stands as a striking tribute to innovation in an era when lesser minds might well have succumbed to the numbing pain of economic contraction.

For all its breadth of vision, however, the grand design of social security is as little understood today as in 1935. Note, for example, current public concern over the solvency of the system—the fear that "the social security fund will go broke" as the ratio of wage earners to retirees declines. Or alternatively, one hears that the taxes necessary to support retirees will grow ever more burdensome on the smaller number of workers, reducing their capacity to support themselves and their children In their more exaggerated expressions these worries pose a threat to further improvements in living standards for older people whose income levels, despite recent increases, remain substantially lower than those of the working-age population.

The concern over future tax receipts is not an idle one, of course The total population of the United States has grown rapidly since the passage of the Social Security Act and the numbers of persons of working age have continued to provide a growing base for tax collections with which to support retirees In addition to increasing numbers of wage earners, economic growth helped to lift hourly rates of pay and made it possible for both the benefit levels and the range of persons receiving benefits to improve through time It was this growth that led economist Paul Samuelson to speak of a "social security paradox" in which everybody got back more than he put into the retirement insurance system.

Social insurance proponents have always recognized the possibility of a slower rate of population growth that ultimately would result in fewer people entering the work force In the case of the United States the population growth rate was 1.7 percent during the two decades following the Second World War; it dropped to 1.0 percent in 1965–72 and is now 0.7 percent This decline means that the school-age population has stopped growing; it is not expected to be any higher in 1990 than it is now. The number of working-age persons, however, will continue to increase rapidly —from 115 million to 141 million in the next 15 years Those persons born in the period of the baby boom are now swelling the labor force and not until the last decade of the century will there be a leveling-off in the size of the working-age group. Persons aged 65 and over will continue to be in the fastest growing segment of the population during the next two decades. If the fertility

---

* Vice president, Duke University, and James B Duke Professor of Economics For the first lecture in the series, see Brian Abel-Smith, "Value in Health Services," *Social Security Bulletin*, July 1974

[1] Harvey D Shapiro, *New York Times Book Review*, November 15, 1975, page 8.

rate were to reach 2 11, the average needed to maintain a stable population, the proportion of the population in various age groups would be as shown in the following tabulation for selected years

Age group	Population (percent)			
	1974	1980	1990	2000
School age, 0–19	36	32	31	30
Working age	54	57	58	58
20–44	34	37	39	36
45–64	20	20	19	22
Retirement age, 65 and over	10	11	12	12

Such public concern with maintaining the integrity of the social security trust fund implies a failure to understand the nature of the system—essentially a pay-as-you-go tax and benefit scheme Since no actuarially determined fund is called for, total benefits are limited only by the amount of payroll (or other) taxes Congress wishes to impose But today's worries about the viability of the system bear out one essential aspect of the problem it now faces—namely, adequate financing This problem is a special concern not only because the social security program is reaching maturity—when the number of beneficiaries is large enough to call for greater tax revenues than ever before—but also because the worker-beneficiary ratio seems likely to be less favorable after the turn of the century

In its maturity, the program will face other questions of similar magnitude—questions that were not of such pressing importance in its youth Can the social security system assume the obligation of having benefits keep pace with growth as well as the cost of living? How high a replacement ratio should be maintained? Should the benefit vary with the age at which one retires, either beyond or before age 65? Will it be necessary to establish a later age of eligibility for benefits to offset the increasing number of elderly persons relative to middle-aged and younger workers? Most troublesome of all, perhaps, is the question of whether imposition of the additional payroll taxes needed to pay for benefits will be acceptable to workers or whether some significant portion of the funds will be collected via other taxes In the ensuing review, several of these issues are looked at in the context of the probable demographic and labor-force patterns of the coming decades

INTERGENERATIONAL TRANSFERS HOW MUCH SMOOTHING OF THE HUMPS AND VALLEYS?

Some time ago Ida Merriam noted that "Earnings . have a very poor fit over time to the individual's changing consumption needs "[2] The problem of smoothing out the "humps and valleys," handled through individual savings and family care in simpler societies, now falls to social institutions that are able to develop procedures for universal coverage Having such institutions in place, however, the society also has to decide the level of income to be maintained in old age, compared with the level of earnings or, in brief, the extent to which income is to be made even between generations

Transfers of income between generations may be viewed differently by different age groups, as James Morgan points out We have, he says, a social contract,

> where each generation helps to pay for increased benefits of the previous generation on an implicit promise that the next generation will do the same for them From this point of view, the system looks like a bargain in retrospect to each older generation and like a rip-off in prospect to each young cohort if they ignore the probable future increase in benefits[3]

In a similar vein, Kenneth Boulding earlier spoke of the fact that

> One of the things we know for certain about any age group is that it has no future The young become middle aged and the middle aged become old and the old die Consequently, the support which the middle-aged give to the young can be regarded as the first part of a deferred exchange, which will be consummated when those who are now young become middle-aged and support those who are now middle-aged who will then be old Similarly, the support which the middle-aged give to the old can be regarded as the consummation of a bargain entered into a generation ago[4]

The need for such a support pattern between generations has grown during social security's

[2] Ida C Merriam, "Implications of Technological Change for Income," in Juanita Kreps, *Technology, Manpower, and Retirement Policy*, World Publishing, 1966, page 167

[3] James N Morgan, *Economic Problems of the Aging and Their Policy Implications*, paper prepared for a Conference on Public Policy Assessment of the Conditions and Status of the Elderly, February 1975, page 3

[4] Kenneth Boulding, "Reflections on Poverty," *The Social Welfare Forum*, Columbia University Press, 1961, page 45

lifetime; financial arrangements previously made within the family are now met largely through fiscal measures What appears in the social accounts as a huge increase in the income allocated to old people obscures the fact that in the absence of the payroll or other taxes, workers would need to support their aged parents directly. Or alternatively, persons at work would have to save enough to support themselves in their own retirement The difficulties of the latter method are emphasized in a recent paper by A J Jaffe, who shows that a worker would need to save about one-third of his earnings throughout worklife in order to pay for his retirement [5]

Although few people would challenge the need for income transfers from workers to nonworkers, including retirees along with the unemployed, the disabled, dependent children, and handicapped adults, the question of the size of the transfer is constantly under debate As retirement benefit levels have improved, payroll taxes have increased and the amount of income shifted from young and middle-aged workers to retirees has grown

Professor Robert Clark, making certain assumptions, estimates that the intergenerational transfer in the social security program grew from about 2 1 percent of a young worker's income in 1950 to approximately 9 0 percent in 1970 Although the replacement ratio—that is, the benefit paid to a retiree as a proportion of his preretirement earnings—has not increased significantly, the increase in tax receipts made it possible to extend coverage, raise minimum benefits, and lower the retirement age [6]

Clark then asks whether this 9 0 percent is likely to increase under conditions of zero population growth On the assumption that the fertility rate moves to the replacement level of 2 11 immediately and remains there (and assuming a constant rate of income growth and a constant replacement ratio), he shows that the ensuing changes in age structure will necessitate an increase in the tax rate Specifically, the 1970 tax rate would have to be increased by 50 percent by the year 2050, when stable population is reached, assuming that retirement age and age of entry into the labor force remain constant Noting that retirement age has been falling steadily during recent decades, however, he speculates on the effect of a continuation of this trend If the age of exit from work has fallen to 60 by 2050, for example, more than a twofold increase in taxes will be required, if it has fallen to 55, more than a threefold increase would ensue To the extent that age of entry into the work force is rising, the tax rate would need to be even higher

The fairly low proportion of earnings maintained under the social security system, compared with the replacement ratios in certain other nations, raises the question of whether the level of pensions should not be improved in the future To do so, Clark points out, the cost would have to be offset by an equal increase in tax receipts Hence, in order to raise the present pension level from a replacement ratio of 40 percent to a ratio of 60 percent it would be necessary to raise taxes by 50 percent

Showing the percentage tax increases needed to support higher replacement ratios in various years before reaching a stable population, he notes further that even maintenance of the present ratio means that the tax rate will need to be 17 55 (an estimated intergenerational transfer of 14 percent) by 2050, if retirement age remains at age 65 These rates are compatible with the Social Security Administration's long-range projections of a 17–18 percent tax after the year 2025

In evaluating future tax levels it is instructive to compare the tax rates now being paid in other countries Various attempts have been made to estimate the worker's total tax liability or, conversely, the proportion of his earnings an employee is allowed to retain for current use or savings

A recent study by the Organization for Economic Cooperation and Development shows that on the basis of disposable income as a percentage of gross earnings, the typical production worker in the United States ranks above a few nations (Denmark, Sweden, the Netherlands, Germany, Norway, and Finland), about equally with several others (Switzerland, the United Kingdom, Australia, and Canada), and below a third group (including Japan, New Zealand, Belgium, Austria, Italy, Spain, and France) In terms of total payments in social security contributions plus

[5] A J Jaffe, *Pension Systems—How Much Myth? How Much Reality?* Paper presented at the 10th International Congress of Gerontology, Jerusalem, June 1975

[6] Robert N Clark, *Age Structure Changes and Intergenerational Transfers of Income,* Duke University, 1975

income taxes, as a percentage of the gross national product (GNP), the United States worker fell somewhat below the median paid in the nations under review Employees in the United States paid less than those in Denmark, Sweden, the Netherlands, Germany, Norway, Finland, the United Kingdom, Canada, New Zealand, Luxembourg, and Austria They paid more than employees in Switzerland, Australia, Ireland, Japan, Greece, Portugal, Italy, Spain, and France.[7]

These findings are confirmed by a recent Social Security Administration report indicating that, of the several countries studied, the Netherlands and Sweden spent the highest proportions of GNP on all social security programs. The United States devoted a relatively low level of its resources to these purposes; only Japan ranked lower. In expenditures for old-age, survivors, and disability insurance as a percentage of GNP, the nations ranged from Germany's high of 7.59 percent to the United States figure of 3 42 and Japan's 0.31 percent. Sweden and the Netherlands were close behind Germany, followed by Belgium (whose figure excluded disability coverage), France, the United Kingdom, and Canada [8]

Our relative position would not seem to give cause for alarm, even with the probable growth in tax liability as the social security system matures. Concern over the change in demographic profile may also appear premature, since a reduction in the number of workers relative to retirees will not occur until after the turn of the century. But if retirement age is lowered without an offsetting rise in the labor-force participation of others in the working-age population, tax rates could rise quite sharply.

RATIO OF WORKERS TO RETIREES

Ultimately, serious problems could emerge as a result of a decline in the proportion of the population of working age and the consequent necessity for transferring a larger percentage of a worker's income to retirees To the extent that levels of living in old age are raised, these problems will be intensified.

The central question of the relationship between a population's age composition and the economic security of the nation's elderly was reexamined recently by Joseph J. Spengler.[9] He points out that the ratio of working age to total population is at or near maximum when population growth is zero. Whether this maximum is achieved depends on whether the labor-force participation rates in the years before age 65 remains high or, as in recent years in the United States, the work-force rates are declining. He notes that "Continuous increases in the relative number of older persons, together with decline in work-life expectancy, could contribute to financial problems in a country in which payments to retired persons from such programs as social security rest essentially on a pay-as-you-go basis." Early retirement, he concludes, is particularly unfavorable in a stationary population Removing those aged 55–66 from jobs would reduce the ratio of workers to retirees by 20 percent and increase the number of older dependents by 46 percent.

Earlier or Later Retirement?

The notion of retiring workers as early as age 55 appears farfetched. Indeed, there is discussion, for the first time, of arrangements for later retirement (and incentives to encourage a postponement of withdrawal from work beyond age 65) that would encourage longer worklife in order to offset the aging of the population.

The condition that led first to fixing the age of eligibility for social security benefits at age 65 and subsequently to encouraging even younger work-force withdrawals was one of a seeming excess of workers. Unemployment was massive when the Act was passed and quite severe when the decision was made to allow men to retire at age 62 with a reduced benefit. Not only Government policy but industry-union bargains as well now make it possible for workers to leave the work force at least 3 years earlier than was

[7] Organization for Economic Cooperation and Development, "The Effect of Tax and Welfare Programmes on Workers' Incomes," *OECD Observer*, March–April 1975, pages 37–39

[8] Max Horlick, *National Expenditures on Social Security in Selected Countries, 1968 and 1971*, (Research and Statistics Note No 29), Social Security Administration, Office of Research and Statistics, 1974

[9] Joseph J Spengler, *Stationary Population and Changes in Age Structure Implications for the Economic Security of the Aged*, Duke University, 1975

initially envisioned. In response to the availability of early pensions and in the face of job shortages, many men have come to view early retirement as a desirable option, provided benefits and other retirement income sources are thought to be adequate.[10]

The level of unemployment declined somewhat after the initial arrangements allowing for early retirement, but it is now higher than at any time since the depression of the nineteen-thirties. Labor-market conditions would therefore indicate a possible further lowering of retirement age, on the assumption that a reduced labor-force size would help to assure jobs to those still actively seeking work. In the absence of greater flexibility in wage rates or working schedules, the allocation of jobs among jobseekers may well be achieved by a reduction in labor-force participation rates for men at both the beginning and the end of worklife—a process that has been underway since the early nineteen-hundreds, and particularly since the end of the Second World War.

Pressure for early retirements appears to be likely if unemployment continues. But offsetting this pressure is the overall need to lengthen worklife in order to maintain a favorable ratio of workers to nonworkers. As the social security system matures and the numbers of beneficiaries grow relative to the size of the labor force, appropriate policy for the system would seem to be one that encourages persons to work through their late sixties, perhaps by offering some increment to beneficiaries who retire after age 65. Were this movement to occur, a number of gains could accrue to the individual worker: Increased income, both before and after retirement; reduced dissatisfaction, perhaps, with mandatory retirement; and greater flexibility in varying work-leisure arrangements to match individual preferences.

Retirement Age and Rising Labor-Force Activity of Women

Women's labor-force activity rates were of course much lower at the time of the social security legislation, and there is no evidence that the framers of the Act expected the sharp rise in these rates that began only a few years later. Much of the current concern with unequal treatment of men and women under the law emerges from provisions designed to meet income needs in an era when most married women were not engaged in market work but relied instead on their husbands' earnings during worklife and their retirement income thereafter.

But what was not foreseen or planned for has nevertheless come to be one of this century's major social developments. Married women have supplied most of the increase in the work force during recent decades; the worklives of single women, which have traditionally resembled those of men, have continued in much the same pattern. In more than half of all husband-wife families of the age group 25–64, both members are now at work.

The sharp rise in women's labor-force rates during World War II has had a lasting effect on their propensities to work outside the home: First, on the work rates of older women, then on those with children in school, and, most recently, on mothers of preschool children. During the period 1965–73 the labor-force activity for women aged 20–24 rose from 50 percent to 60 percent; among the college graduates of this age group the rate moved from 70 percent to 86 percent. Among those aged 25–34, the proportion with market jobs increased from 37 percent to 50 percent, while for those with no children it reached 75 percent. Clearly, the worklife pattern for married women has changed dramatically, with younger cohorts, particularly those with college degrees, staying in the labor force through most of the childrearing period.[11]

But women have not always observed the same work patterns as men. Women have felt, for example, that they needed shorter market hours in order to meet their traditional nonmarket obligations. Even when the woman worker was typically single and young she exerted a downward pressure on working hours, according to Clarence Long, since she "needed to be able to type till five o'clock and still have time to search

[10] See Richard Barfield and James Morgan, *Early Retirement: The Decision and the Experience*, Institute for Social Research, University of Michigan, 1969.

[11] *Women and Social Security: Adapting to a New Era*, Special Committee on Aging, U.S. Senate (94th Congress, 1st Session), 1975, page 9.

for a cheap roast or a rich husband"[12] Women may find such a remark chauvinist It is certainly true that those with husbands have felt a similar need for shortened workdays But an equally important effect of women's entrance into market jobs has been the addition of female workers in sufficient numbers to offset the male workers' withdrawal, leaving the percentage of adults engaged in market work relatively stable during the past half a century

For purposes of anticipating the future ratio of workers to retirees it is necessary to make explicit one's assumption regarding the labor-force activity of women in the decades ahead Will the decline in work rates for men, occasioned by their longer periods of schooling and retirement, continue to be offset by women's higher levels of market activity, or will one change faster than the other?

Projections are difficult to make because of the number of factors affecting both the supply and the demand sides of labor Women have been drawn into the labor market by the availability of jobs and rising wage scales In the past, they have sometimes dropped out of the work force for childbearing and childrearing and also when they were discouraged by poor job prospects But there is increasing evidence that young women now in the labor force have much stronger attachments to the labor force than was true of earlier cohorts and that they are less likely to return to fulltime home work either to meet family responsibilities or because the job market is unfavorable

If the expectations of these women are borne out, their participation in the labor force will have greater continuity through worklife and their numbers will surely swell the proportion of the adult population seeking work Whether men will experience further reductions in the length of their worklives, thereby continuing the secular decline in the labor-force activity of men, depends in large measure on the rate of economic growth and the availability of jobs What both sexes might reasonably demand is shorter workweeks—or work interspersed with longer vacations, sabbaticals, education, and training This pattern would be especially helpful if men and women come to share more evenly the home work, as they are now sharing the market work.

The net effect could be to produce a favorable ratio of workers to retirees and possibly to retard the downward drift of retirement age for men By contrast, slower economic growth and heavy unemployment in the last quarter of this century could lead to some discouragement of workers and probably to a continued pressure for postponed entry to and early retirement from the work force The impact of a reduction in worklife on the considerations before the Social Security Administration is critical, whether such reduction is a result of the population's age structure or an outgrowth of shrinking job opportunities Consequently, it will be necessary to return to these questions in the subsequent discussion of financing

FINANCING· NEW QUESTIONS AND OLD

In a recent statement, Wilbur J Cohen, noting that the number of aged persons would grow from the present 22 million to 30 million in the year 2000 and to 50 million by 2030, made some recommendations for changes in financing Instead of the scheduled rise in taxable base from the current $14,100 to $17,000 in 1977, he suggests that the base be raised to $24,000 This increase would "restore the financial integrity" of the program and would allow for other needed reforms Benefits to persons aged 55 and over totally disabled for their customary work, actuarially reduced benefits for persons aged 60–62, changes that would eliminate discrimination against women under the Act and would extend its coverage to unpaid household workers With regard to financing health insurance, he recommends that general tax revenues, employers, and employees each contribute a third of the needed funds[13]

Demographic and Deficits

An extensive review of the financing of the old-age, survivors, and disability insurance (OASDI) program prepared by the Quadrennial Advisory Council on Social Security pointed to the demographic changes that began with the low birth rates of the 1930's and noted two important sta-

[12] Clarence Long, *The Labor Force Under Changing Income and Employment*, Princeton University Press, 1958

[13] *New York Times*, August 18, 1975, page C–25

tistics (1) there are now 30 beneficiaries per 100 workers and (2) in 2030 there will be 45 beneficiaries per 100 workers Unless these ratios are improved by immigration, increased market work by women, or a later retirement age, the Council report concludes, a long-run OASDI deficit of 2 98 percent of payroll will ensue, three-fourths of it due to the demographic change[14] Even higher deficits were projected by the Trustees of the Federal OASDI trust funds Specifically, the Trustees estimated that on the average the deficit would be 1 26 percent of taxable earnings for the 25 years, 1975–1999, 4 10 percent of taxable earnings for the second 25 years, 2000–2024, and 10 19 percent of taxable earnings for the third 25 years, 2025–2050

The average cost over the entire period is expected to be 5 32 percent of taxable payroll. The assets of the trust funds, given the early deficit rates, would be exhausted soon after 1979[15]

In view of these possible deficits, it is not surprising to hear criticisms and advice from every hand The Advisory Council focused its primary attention on the instability of replacement rates caused by the automatic cost-of-living formula written into legislation in 1972 and recommended a "decoupling" system instead The new formula " will cause benefits to rise solely in keeping with wages during an individual's working years, and after retirement his benefits will increase solely on the basis of increases in the Consumer Price Index "[16]

It is important to distinguish between the impact of the automatic benefit mechanism, which compounds the cost-of-living adjustment by raising the worker's potential benefit through higher wages *and* by increasing the schedule of benefits, and the problems associated with a changing demographic pattern Policy can easily be changed, if the public wills it, in such a way as to stabilize replacement ratios, the "decoupling" proposal appears to answer this problem But the second question—the number of workers in relation to the number of nonworkers, old or young—is a more complex issue composed of changing fertility rates, retirement age, the labor-force activity of young and older men and, even more significantly, of women The proportions of young to old or men to women cannot be changed quickly; they result from earlier events

To change the ratio of workers to nonworkers is not impossible, however Indeed, such a change can be accomplished fairly easily in a period of economic expansion It would be feasible, for example, to extend working age from 65 to 68 and thereby keep a more favorable ratio, when jobs are available for both the middle-aged and the older worker Moreover, the proportion of women in the job market would be greatly increased if a strong demand for their services pushed up their wages In view of women's greater life expectancy, an extension of worklife could be particularly beneficial to them The Social Security Advisory Council suggests that retirement age might be extended by 2 months a year, beginning in the year 2005 and ending in 2023 The result would be to lower payroll taxes as shown below[17]

Calendar year	Tax rate	
	Scheduled	With 68 as retirement age by 2023
2005–2014	12 3	12 1
2015–2024	14 2	13 5
2025–2050	16 1	14 6

A later retirement age is appealing for individual as well as societal reasons Personal preferences can be accommodated, earnings can be extended later into the lifespan, the worker's sense of self-worth is enhanced But the probability that social policy will move toward a lengthened worklife is low in an era characterized by job shortages and high unemployment, as we noted earlier The reverse movement toward earlier retirement has been occurring, with de-

[14] Advisory Council on Social Security, *Report of the Quadrennial Advisory Council on Social Security*, Committee on Ways and Means, U S House of Representatives (94th Congress, 1st Session), 1975, chapter 7

[15] *1975 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds*, Committee on Ways and Means, U S House of Representatives (94th Congress, 1st Session), 1975, page 2

[16] Advisory Council on Social Security, *op cit*, pages 53–54 See also Lawrence Thompson, *An Analysis of the Factors Currently Determining Benefit Level Adjustments in the Social Security Retirement Program* (Technical Analysis Paper No 1), Department of Health, Education, and Welfare, 1974

[17] Advisory Council on Social Security, *op cit*, page 63

parture from the work force before age 65 becoming the norm Hence, an extension of working years in later life would seem unlikely unless the rate of growth is accelerated

Funds and Funding

Economists have frequently raised questions regarding the possible impact of OASDI on saving and capital formation, hypothesizing that the incentive to save privately is reduced by the assurance of public benefits Interest in this interrelationship has increased with the work of Martin Feldstein,[18] Alicia Munnell,[19] and others Feldstein concludes that social security halves personal saving, thereby leading to substantial reductions in the stock of capital and the level of national income Specifically, the GNP would have been 11–15 percent higher in 1972 had private capital not declined in response to social security taxes and transfers Thus "a pay-as-you-go social security system reduces aggregate saving and lowers the level of real income"[20] Edgar Browning argues further that the cost of social insurance is concentrated on the young, the benefits on those who are older As a result, older voters will favor a larger commitment of funds for social security than younger voters, but both groups will underestimate the effects of social insurance on capital accumulation[21]

Other economists, notably John Brittain, have raised objections to using the payroll tax to collect funds to pay benefits, primarily on the basis of the regressivity of the tax Writing in 1972, he concluded that "As the tax rate on the working poor nears 13 percent (11 percent for OASDHI and 2 percent for UI), it would seem especially patronizing for their more affluent fellows to assert that it is good for the poor to be forced to save for their old age"[22] As to its impact on saving, Brittain reasons that the payroll tax cuts into saving less sharply than a progressive income tax and is therefore less of a constraint on growth[23] Moving toward income taxation and away from payroll taxes is recommended

None of these objections to the pattern of financing social security are new. They take on added force, however, because tax rates are higher than in the earlier days of the program and because of current publicity over the declining size of the trust fund It is clear that the pressure to consider alternative funding procedures will continue, with recommendations ranging from relatively mild suggestions for raising the taxable base for the payroll tax to a reform that would involve the building up of a social security fund to offset any decline in private saving and yield a return on the accumulation[24]

SUMMARY

Current public preoccupation with the future of social security is perhaps a good sign It may signify an interest in one's own retirement, admittedly, rather than a concern for the general welfare Still, recognition of the need to provide income for the future forces a wage earner to confront the costs of retirement benefits and the problems inherent in offsetting any demographic shifts along the way. A typical editorial recently declared.

> Retirement age may have to be pushed back to 68 or even 70 simply to keep the social security system solvent
>
> For unless birth rates rise dramatically, the ratio of workers to retired persons will drop from 3 to 1 to 2 to 1 in the not-too-distant future, putting a heavy financial burden on people who pay social security taxes
>
> There are good reasons for mandatory retirement One is the need to maintain an efficient, alert work force Another is to make room for young leadership
>
> But it's beginning to look as though retiring workers at 65—or even younger—is a luxury our children and grandchildren may not be able to afford[25]

[18] Martin Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy*, September–October 1974, pages 905–26

[19] Alicia H Munnell, "The Impact of Social Security on Personal Savings," *National Tax Journal*, December 1974, pages 553–68

[20] Martin Feldstein, *op cit*, page 923

[21] Edgar K Browning, "Why the Social Insurance Budget Is Too Large in a Democracy," *Economic Inquiry*, September 1975, pages 373–388

[22] John A Brittain, *The Payroll Tax for Social Security*, The Brookings Institution, 1972, page 20

[23] *Ibid*, pages 248–251

[24] Martin Feldstein, "Toward a Reform of Social Security," *The Public Interest*, Summer 1975, pages 75–95

[25] *The Cleveland Press*, November 10, 1975, page A6

Although such statements tend to exaggerate the impact of current trends, it is nevertheless important to call attention to a possible reversal of the downward drift of retirement age and to the basic explanation for the existence of a younger or later age. General acceptance of extended worklife or higher taxes for the support of retirement benefits is essential to the further growth of the system, and such growth is more difficult to achieve in the wake of frequent warnings that the fund is depleted.

The problems facing a mature system need to be addressed, with perhaps more attention to public sentiment than has been necessary in the past The costs of substantial increases in the level of benefits, the growing proportion of the population to be supported, new questions on the manner of funding, and the possible impact of social insurance on private saving—these are the issues that lie ahead The more clearly these issues are stated, the greater the chances of developing a consensus that the gains of the system far outweigh its costs.

It is an error to play down the costs of adequate retirement benefits, as Harvey Shapiro argues:

> At the heart of social security's burgeoning costs are some important demographic shifts in American society When social security was created in 1935, much of the population was going to work at the age of 16 and retiring at 65 with a life expectancy of another 5 or 6 years More recently a number of middle class young people have been entering the labor force at age 25 or so, and when they retire at 65, many can expect to live another 10 or more years Thus individuals have fewer years to save up for longer retirements[36]

Coupled with increased longevity and lower birth rates, he concludes, retirement benefits are bound to be expensive The question before the public is not whether the clock can be turned back four decades to a time when a tax of 2 percent of the first $3,000 of earnings covered a small number of retirees, and those only meagerly The debate turns, instead, on the proportion of earnings we wish now and in the future to maintain in retirement, and how we wish to finance that benefit There can be no doubt that the costs will be high, even if we merely hold to the present replacement ratio For when the retirement stage of life extends to one-third the length of worklife, the transfer of earnings is necessarily large, even when the humps and valleys are only partially smoothed

[36] Harvey D Shapiro, *op cit*

Notes and Brief Reports

Social Security Act Amendments

Late in 1975, Congress sent to the President two bills amending several provisions of the Social Security Act Public Law 94–182, concerned almost entirely with Medicare (health insurance for the aged and disabled), was signed by President Ford on December 31, 1975. Public Law 94–202, signed January 2, 1976, amends provisions of the old-age, survivors, disability, and health insurance (OASDHI) program and the supplementary security income (SSI) program

PUBLIC LAW 94–182

Medicare Amendments

The 1975 legislation extends some provisions already in the law, corrects some problems, and amends several provisions relating to reimbursement and utilization review.

1 It removed the technical defect in the law that barred future increase in the SMI monthly premium, increases are now limited to the smaller of (a) one-half the actuarial cost of SMI benefits for the aged for the 12 month period in which the premium rate is effective *or* (b) the percentage by which cash benefits are raised in the 12-month period ending May 1 of the year in which the premium rate becomes effective As under the old law, the premium is promulgated in December, effective July 1 in the following year