Economic Aspects of
The Social Security Tax

Tax Foundation, Incorporated
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The social security tax, born in the Great Depression as a relatively small levy, has since burgeoned into a tax of major significance. For many families with low incomes, and for large families with moderate incomes, OASDI-II tax payments will exceed their income taxes. For many employers, the tax has become an important business cost.

In the mid-forties, collections from the social security tax accounted for less than 3 percent of total Federal tax collections. In fiscal 1967 collection for this tax will amount to nearly 17 percent of total collections, and be approximately 70 percent greater than receipts from Federal excise taxes.

Changes in the name of the tax mirror yet another facet of the system, the extension of benefits. From 1937 through 1955, it was known as the OASI (Old Age and Survivors Insurance) tax. Beginning in 1956, disability was added (OASDI); in 1966 health benefits (OASDHI) were introduced. Along with the transition from OASI to OASDHI, the level of benefits rose from a $60 monthly maximum for an individual in 1939 to the $168 provided by the amendments of 1965, but the end is not in sight.

All these developments underscore the need for re-examination of the effects of the tax which finances the social security system. When a tax represents but a tiny fraction of the economic framework, the effects may not matter, since presumably the impact will be weak. But when a tax has grown to be the largest source of Federal receipts after the income taxes, then the time has come to consider what differences this tax might make to individuals, to business, and to the economy.

An examination of any tax will turn up some blemishes, and this study of the social security tax is no exception. The fact that this study calls attention to a number of undesirable effects does not imply condemnation of the tax. Taxes should not be judged alone, but in relationship to the entire tax structure and to the uses made of the revenues. The major purpose here is to provide some of the material needed to make such comparisons.

Elizabeth Deran, Senior Research Analyst, had primary responsibility for the research and drafting of this study. Material assistance in preparation of this study came from economists associated with universities, business firms, and the government, from tax specialists, and from members of the Tax Foundation staff who provided thoughtful comments on earlier drafts.

The Tax Foundation is a private, non-profit organization founded in 1937 to engage in non-partisan research and public education on the fiscal and management aspects of government. Its purpose is to aid in the development of more efficient and economical government. It serves as a national information agency for individuals and organizations concerned with government fiscal problems.

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Economic Aspects of
The Social Security Tax

I.
Introduction

Gradually, since it began in 1937 as a modest tax to finance old age retirement, the payroll tax for social security has grown into a major component of the Federal tax system, an important cost, and a big element in many family budgets.

In 1966 the maximum Old Age, Survivors, Disability, and Health Insurance (OASDHI) tax due from a given individual and his employer will come to nine times the amount of the maximum for OASI with which the system began. Some of the increase, of course, results from price changes over the three decades since the system began, but even in constant dollars, the maximum tax has quadrupled. As a consequence of rate and base changes, the percentage of total Federal tax collections attributable to the social security tax has risen from 7.8 percent in 1942 to 2.9 percent in 1945 to about 15 percent in fiscal 1966. Reduced rates for income and excise taxes alongside scheduled increases in OASDHI taxes will make social security collections an even larger fraction of total collections in the years ahead.

In spite of the increasing importance of the OASDHI tax, however, even tax specialists and legislators know all too little about the economic effects of either payroll taxes in general or the social security tax in particular. Such full-scale studies of the tax issues and problems as exist date from the early period of the social security system, when there was virtually no empirical material from which to draw conclusions.

Most of the discussion since the early 1940's has been concerned with benefit problems. Since the focus of this study is an analysis of the effects of the tax, benefit questions will be touched on here only as they relate to the tax. A vast body of literature on benefits exists, and even the most superficial survey would require space disproportionate to its significance for this study. Such

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1. Collections for earlier years are not reported on a basis consistent with later figures. Throughout this study, taxes for unemployment benefits and those for railroad retirement are excluded.
questions as, for instance, whether present levels of social insurance benefits are ample to provide a decent standard of living for the elderly will not be dealt with here, no matter how important and engrossing they may be for an evaluation of the entire social security system. Questions about the method of financing and the trust fund will arise, however—not in connection with actuarial issues but in terms of their economic effects.

In the pages which follow, the data which have accumulated since the system first began operation will be used to identify some of the more important aspects of the social security tax, in the light of actual experience. Obviously, not everything which might be said about the tax can be encompassed in one volume. The aim here is not so much to present an exhaustive examination as to report the discoveries from an exploratory sojourn into regions long neglected. It must be left to future researchers to follow the many paths which at this time can only be noted in passing.

Another dimension of social security which has attracted much attention over the years relates to financing problems, particularly questions with respect to the actuarial soundness of the methods of financing. As with the welfare issues, consideration of actuarial issues will be excluded from this study except at a few points where they touch directly on tax problems. Questions about the method of financing and the trust fund will arise, however—not in connection with actuarial issues but in terms of their economic effects.

II. History and Development of OASDHI

Today’s old-age, survivors, disability and health program — OASDHI — originated in the Social Security Act of 1935. Initially providing only old-age insurance and covering a limited number of employees, the program gradually has been expanded to encompass practically all workers and the additional contingencies of illness in old age, of death, and of disability.

The Aged before 1935

Initially, the United States met the problems of its indigent aged through private philanthropy and adoption of the English Elizabethan poor laws, incorporating principles of local responsibility and the liability of relatives for the support of needy members of the family. Consequently, county poor farms and almshouses were institutions familiar to the aged poor.

Gradually some state governments began to introduce provisions for assistance to aged indigent persons. The first of these, introduced in Arizona in 1914, was found unconstitutional; but later laws were more carefully drawn and subsequently approved. By 1931, 17 states plus Alaska had introduced such laws. To qualify for these old-age pensions, the recipient generally had to establish that he was destitute, lacked relatives willing or able to support him, and was a long-term state resident.¹

During the early 1930’s, two major schools of thought on old-age assistance attracted popular attention. Abraham Epstein had organized the American Association for Old Age (later Social Security in 1927 to advocate the social insurance approach. He published many articles and finally in 1933 a book which aroused widespread interest.

Dr. Francis E. Townsend spearheaded the flat pension method. He launched his movement in California in 1933, advocating a uniform pension of $200 per month for everyone aged 60 or more, to be financed by a 2 percent transactions tax. Doubtless millions of Americans who lived through that period still recall his slogans whenever they hear the militant “Battle Hymn of the Republic,” a tune which he adapted for a theme on his ubiquitous radio program. By 1955, 4,550 Townsend Clubs had sprung up.

The Social Security Act of 1935

In 1934, President Roosevelt established a temporary group to study problems relating to economic security and to make recommendations for immediate legislation as well as a long-term program. This group, the Committee on Economic Security, consisted of the Secretaries of Labor, the Treasury, Agriculture, the Attorney General, and the Federal Emergency Relief Admin-

¹ A popular movie in the early 1930’s entitled “Over the Hill to the Poorhouse” reflected the concern of the period.
istrator. Other auxiliary groups established at the same time supplemented the work of the major committee. Professor Edwin E. Witte coordinated the work of these agencies: the Advisory Council on Economic Security (consisting of business and farm representatives, labor union officials, social workers, educators, and other citizens), the Technical Board of Economic Security (government officials and civil servants responsible for technical studies), and eight advisory committees assisting the technical board.

In the area of old-age assistance, the committee recommended a three-fold program: a Federally administered plan of compulsory old-age annuities, a supplemental voluntary government plan, and Federal grants-in-aid to states setting up an old-age assistance program which required a needs test. The President transmitted the committee's report to Congress early in 1935, and Administration bills incorporating its substance were introduced in Congress. After extensive public hearings, a modified Social Security Act was passed and signed into law on August 14, 1935. By 1937 the Supreme Court had found the act constitutional.

Subsequent Developments

Congress has amended the original statute many times. Major changes, in 1939, 1946, all of the even (election) years in the 1950's, 1961, 1962, and 1965, altered coverage, benefit eligibility requirements, retirement tests, and financing provisions.

The 1939 act holds particular interest, since it made a number of basic changes. Most important, it made a fundamental change in financing, switching from the original plan of taxes high enough to accumulate a large trust fund to a more or less pay-as-you-go approach. The act also revised the original benefit formula, which weighted initial earnings more heavily than subsequent increments, before it was due to go into effect (in 1942), and lump-sum rebates were eliminated. The 1939 act also added provision for survivor benefits, reduced the maximum allowable benefits somewhat, and deferred the scheduled increase in the tax rates.

In general, the 1939 revisions shifted emphasis from protection of the individual to protection of the family. To do so, the system shifted somewhat away from an insurance approach and more toward a social welfare basis.

Two other significant modifications of the underlying philosophy of the system occurred in 1956, when disability benefits were added, and 1965, when Medicare was authorized. Most of the many other amendments to the original act made during the intervening three decades have been concerned with increases in the rate of tax and the base to which it applies, extension of industrial coverage, and steadily rising levels of benefits.

The OASDHI Tax Today

In many ways, the social security tax qualifies as an unusual tax. Like a
business tax, it is levied on employers but, like a personal tax, it also is levied on individuals. It applies at a flat rate up to a specified level of earnings; then the rate drops to zero. Moreover, because retirement benefits to be received later are roughly related to payments of the tax, government literature customarily refers to the payments as “insurance contributions.”  

A distinguishing feature of the social security tax is its base. Unlike other taxes, which apply at a given rate or series of rates to the entire entity being taxed, or the entire entity after an exemption, this levy taxes the bottom slice of wages. Since the tax is imposed only on the first “x” dollars of wages earned, the result is that the fraction of wages taxed, and hence the effective rates, represent an almost infinite series. That is to say, some persons pay tax on 100 percent of their wages, others on 99 percent, 98, 97, 96, and so on, down through small percentages.  

A further result associated with this form of base shows up in total collect-

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**Table 1**

Variation in Quarterly Tax Collections for OASDI as Percent Of Wages and Salaries and of GNP

Selected Years, 1945 – 1964

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Tax collections in millions of dollars</td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter 1</td>
<td>4,459</td>
<td>3,417</td>
<td>3,025</td>
<td>2,229</td>
<td>1,981</td>
<td>1,154</td>
<td>381</td>
<td>281</td>
</tr>
<tr>
<td>Quarter 2</td>
<td>4,850</td>
<td>3,597</td>
<td>3,227</td>
<td>2,163</td>
<td>1,978</td>
<td>1,159</td>
<td>458</td>
<td>382</td>
</tr>
<tr>
<td>Quarter 3</td>
<td>3,971</td>
<td>3,141</td>
<td>2,624</td>
<td>2,092</td>
<td>1,604</td>
<td>962</td>
<td>450</td>
<td>345</td>
</tr>
<tr>
<td>Quarter 4</td>
<td>2,340</td>
<td>1,946</td>
<td>2,068</td>
<td>1,546</td>
<td>1,239</td>
<td>636</td>
<td>389</td>
<td>278</td>
</tr>
<tr>
<td>Range as % of highest quarter</td>
<td>51.8</td>
<td>45.9</td>
<td>35.9</td>
<td>30.6</td>
<td>37.5</td>
<td>45.1</td>
<td>16.8</td>
<td>27.2</td>
</tr>
<tr>
<td>Collections as percent of wages and salaries</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter 1</td>
<td>5.5</td>
<td>4.7</td>
<td>4.5</td>
<td>3.5</td>
<td>3.4</td>
<td>2.4</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Quarter 2</td>
<td>5.9</td>
<td>4.8</td>
<td>4.7</td>
<td>3.3</td>
<td>3.3</td>
<td>2.3</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Quarter 3</td>
<td>4.8</td>
<td>4.2</td>
<td>3.8</td>
<td>3.2</td>
<td>2.7</td>
<td>1.9</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Quarter 4</td>
<td>2.8</td>
<td>2.6</td>
<td>3.0</td>
<td>2.4</td>
<td>2.1</td>
<td>1.3</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Range as % of highest quarter</td>
<td>52.5</td>
<td>45.8</td>
<td>36.2</td>
<td>31.4</td>
<td>38.2</td>
<td>45.8</td>
<td>21.4</td>
<td>30.8</td>
</tr>
<tr>
<td>Collections as percent of GNP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter 1</td>
<td>2.9</td>
<td>2.5</td>
<td>2.4</td>
<td>1.9</td>
<td>1.8</td>
<td>1.3</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Quarter 2</td>
<td>3.1</td>
<td>2.6</td>
<td>2.6</td>
<td>1.8</td>
<td>1.8</td>
<td>1.3</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Quarter 3</td>
<td>2.5</td>
<td>2.3</td>
<td>2.1</td>
<td>1.7</td>
<td>1.4</td>
<td>1.0</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Quarter 4</td>
<td>1.5</td>
<td>1.4</td>
<td>1.6</td>
<td>1.3</td>
<td>1.1</td>
<td>0.7</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Range as % of highest quarter</td>
<td>51.6</td>
<td>46.2</td>
<td>38.5</td>
<td>31.6</td>
<td>38.9</td>
<td>46.2</td>
<td>14.3</td>
<td>28.6</td>
</tr>
</tbody>
</table>

a. Adjusted to accrual basis by defining quarter 1 as February-April, quarter 2 as May-July, etc. OASI only prior to 1956.


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4. Theoretically, employer and employee pay equal amounts of tax. In practice, however, an employee with more than one job receives a refund for withholding in excess of the maximum while the excess matched by his employers is never refunded.
5. In the case of the self-employed the tax applies to earnings, including profit.
6. The effective rates resulting from these fractions will be considered in a later section. See Chart 3.
tions. The maximum base (\$4,800 since 1959 but jumping to \$6,600 in 1966) often has been lower than the total wages of many taxpayers, who therefore pay their commitment in less than a full year. For instance, under the rate and base prevailing in 1966, a person earning wages of \$40,000 per year pays his entire social security tax within the first two months of the year. At a wage of \$19,800, the tax is paid in four months; at \$9,900, in eight. Consequently total tax collections, in spite of some evening out because of seasonal variations in employment, exhibit a considerable range from the highest to the lowest quarter of each year, as shown in Table 1. The actual amount of spread depends, of course, on the pattern of wage distribution in a given year in relation to the upper limit of the tax base. Generally speaking, therefore, the difference between collections in the first and fourth quarters tends to increase gradually as income levels rise because the maximum tax base remains constant (until Congress sets a higher base with the result that the process repeats itself).

Table 1, which gives quarterly collections for selected years between 1945-1964, illustrates that the range—the difference between the highest and lowest quarters in a year—ran as high as 52 percent of collections for the highest quarter. Expressed alternatively, in some years collections in the lowest quarter were less than half the size of those in the highest quarter. Such variation shows up in terms of the absolute value of the collections as well as when the collections are expressed as a fraction of wages and salaries or of GNP. Clearly, this pattern of collections makes for an unevenness in disposable personal income in the economy. Consider, for example, collections as a percent of wages and salaries in 1964, the second quarter being the highest (as is the case year after year, almost without exception). The tax as a percent of wages and salaries drops by 1.1 percentage points, to 4.8 percent, in the third quarter, thus increasing disposable income, and drops further, by an additional 2 percentage points, in the fourth quarter. Instead of continuing to drop, however, it will go up in the next quarter, following the pattern which results from the nature of the base.

An alteration in the base, changing from an annual maximum to a monthly maximum for taxable earnings, would reduce the jerkiness in collections. Such a change, however, would bring a number of administrative and compliance problems in its wake, particularly in those cases where wages exceed the base and the pay period is weekly, bi-weekly, or semi-monthly. Suppose, for instance, that the current maximum of \$6,600 were changed to its monthly equivalent of \$550. Under a semi-monthly pay period, an individual earning, say, \$750 a month (i.e., \$9,000 annually) would pay \$15.75 in OASDHI taxes the first pay period in the month and \$7.35 the next—somewhat inconvenient for employer and employee, but not impossible. Under a weekly pay period, however, the problem would become quite complex. At \$173 per week, if the beginning of the week conveniently falls at the beginning of the month, the employee pays \$7.27 for the first three pay periods, \$1.29 on the fourth, and nothing on the fifth. If the month begins in the middle of a week, then the pay presumably would have to be prorated, with tax due on that portion falling in the new month. The number of days to be prorated and consequently the point at
which the monthly maximum is reached would change constantly, to the harassment of payroll clerks and tax administrators.

A monthly maximum might also create hardship for workers in seasonal industries in which earnings tend to lump into a relatively few months. For most such workers, the result of a monthly maximum would be that their average earnings for tax computation purposes would be reduced, and consequently their pension levels would be lower than under the annual maximum.

**Is the Tax an Insurance Premium?**

The idea that social security collections ("contributions") represent essentially insurance premiums depends on the link between payments and benefits. The tax, though compulsory, nonetheless gives the employee "title" to specified benefits under particular contingencies, such as retirement in old age, disabling illnesses, widowhood, and the like. When individuals pay their social security tax, it can be maintained, they are purchasing a "guarantee of help in future times of distress." If so, the payments are in essence premiums for insurance or an annuity.

The payment-benefit relationship under OASDHI, however, differs from that under private insurance in a number of important ways. For one thing, a worker can make payments for which he never receives benefits, if he is so unfortunate as to suffer death or disabling injury before he is "fully insured" or "currently insured" - conditions satisfied by varying periods of coverage which depend, for the most part, on the worker's age. Such instances are not common; moreover, private insurance also excludes some types of benefits until certain waiting periods have been fulfilled. But a private insurance premium usually provides some degree of contingency guarantee from the moment payment is made - a characteristic which the OASDHI tax does not share.

OASDHI taxes differ from insurance premiums in another important respect: the absence of a firm contractual relationship between insured and insurer. Congress retains the privilege of changing at any time the terms of the benefits to be received, as well as the taxes and other conditions necessary to maintain eligibility for benefits. It is true that benefit changes generally have been in favor of the beneficiary, but not always. In any event, the taxpayer does not have an actual "property right in the system as a result of his payments; he has only a moral claim, one which Congress can deny.

An example of a change which was not in favor of the beneficiary occurred in 1939. The original act provided that a taxpayer would always get back, at a minimum, the money he contributed to the system. Thus an individual reaching age 65 without qualifying for a pension nonetheless would receive a lump-sum refund of his contributions. A similar refund would be made to the estate of a worker who died before he was properly insured. Moreover, if an individual began receiving a pension but died before his total payments equalled his total contributions, the difference reverted to his estate. Under these provisions, refunds were made to

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7. As established in *Fleming v. Nestor*, 363 U.S. 603, 1960, which upheld the constitutionality of a provision which prohibits OASI benefit payments to persons deported for subversive activities, even if they took place before the provision had been enacted. The Supreme Court maintained in its decision that "the OASI program is in no sense a federally-administered 'insurance program' under which each worker pays 'premiums' over the years and acquires at retirement an indefeasible right."
178,583 workers and 318,665 estates. The 1939 act eliminated such payments—a change unheard of in an ordinary contractual relationship.

Nonetheless, primarily because of the payment-benefit link, the social security payment does retain elements of an insurance premium. At the same time, if one accepts the dictionary definition of a tax ("a forced contribution of wealth to meet the public needs of a government"), then obviously a social security payment should also be designated as a tax, not a mere insurance premium. It is unquestionably a forced contribution—with some minor exceptions—and, as will be shown later, the system was intended to meet public needs, albeit through the channel of providing for private needs.

**Increases in Rate, Base, And Coverage**

The upward march of the tax rate and base, and their combined effect on the maximum tax under the program, may be seen in Table 2. In 1937, the first year taxes were collected, no worker paid more than $30 in OASI taxes. Thirty years later, in 1966, the

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**Table 2**

**OASDHI Tax Rates and Basesa**

**1937 -- 1987**

<table>
<thead>
<tr>
<th>Year</th>
<th>Maximum taxable base</th>
<th>Tax rate (percent)</th>
<th>Maximum tax (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Combined employer-employee</td>
<td>Employer or employee alone</td>
<td>Self-employed</td>
</tr>
<tr>
<td>1937-1949</td>
<td>$3,000</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>1950</td>
<td>3,000</td>
<td>3.0</td>
<td>1.5</td>
</tr>
<tr>
<td>1951-1953</td>
<td>3,600</td>
<td>3.0</td>
<td>1.5</td>
</tr>
<tr>
<td>1954</td>
<td>3,600</td>
<td>4.0</td>
<td>2.0</td>
</tr>
<tr>
<td>1955-1956</td>
<td>4,200</td>
<td>4.0</td>
<td>2.0</td>
</tr>
<tr>
<td>1957-1958</td>
<td>4,200</td>
<td>4.5</td>
<td>2.25</td>
</tr>
<tr>
<td>1959</td>
<td>4,800</td>
<td>5.0</td>
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</tr>
<tr>
<td>1960-1961</td>
<td>4,800</td>
<td>6.0</td>
<td>3.0</td>
</tr>
<tr>
<td>1962</td>
<td>4,800</td>
<td>6.25</td>
<td>3.125</td>
</tr>
<tr>
<td>1963-1965</td>
<td>4,800</td>
<td>7.25</td>
<td>3.625</td>
</tr>
<tr>
<td>1966</td>
<td>6,600</td>
<td>8.4</td>
<td>4.2</td>
</tr>
<tr>
<td>1967-1968</td>
<td>6,600</td>
<td>8.8</td>
<td>4.4</td>
</tr>
<tr>
<td>1969-1972</td>
<td>6,600</td>
<td>9.8</td>
<td>4.9</td>
</tr>
<tr>
<td>1973-1975</td>
<td>6,600</td>
<td>10.8</td>
<td>5.4</td>
</tr>
<tr>
<td>1976-1979</td>
<td>6,600</td>
<td>10.9</td>
<td>5.45</td>
</tr>
<tr>
<td>1980-1986</td>
<td>6,600</td>
<td>11.1</td>
<td>5.55</td>
</tr>
<tr>
<td>1987 &amp; after</td>
<td>6,600</td>
<td>11.3</td>
<td>5.65</td>
</tr>
</tbody>
</table>

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a. Disability insurance not included until 1956; hospital insurance, not until 1966.
b. Not covered until January 1, 1951.

increased rate and base make an individual worker directly liable for as much as $277 — $247 more than in 1937, more than a ninefold increase. Over the same period, the combined employer-employee tax has gone up almost $500, to $554.

Scheduled increases, moreover, will take the tax bill even higher over the next two decades. Although the legislated schedule of increases has rarely become fully effective before Congress has introduced a new schedule at higher levels, the present statutory timetable gives some hint of the tax to be anticipated. As shown in Table 2, by 1987 the combined employer-employee rate of 11.3 percent on a base of $6,600 will result in a total tax liability per worker of $746 — more than 12 times the original tax.

Part of the increase in tax can be explained by increases in benefits other than retirement (i.e., disability, medical care). Another part of the increase in tax can be explained by increases in the level of prices over the period. As shown in Table 3, however, the maximum tax rises even when allowance is made for price changes. The big jumps have taken place over the past decade, beginning in 1954, when the maximum tax in terms of 1965 dollars moved from about $66 to about $84 per employee. Congress enacted the biggest single increase in 1965, bringing the maximum tax to $277, a fourfold increase since 1951.

Occupations, industries, and geographic regions subject to the social security tax have also multiplied. This year, when additional coverage provided by the amendments of 1965 takes effect, virtually every employed person in the continental United States and its outlying areas is covered by OASDHI or by similar government systems.9 Casual workers who do not stay with one employer long enough to earn the minimum taxable wage, and low-income self-employed persons constitute the two main groups, probably quite small, who do not qualify for OASDHI.10

Chart 1 summarizes the history of the major changes in coverage.10 Significant additions occurred when the self-employed (other than farm and professional) and many farm and domestic workers were included in 1951; the remainder of the self-employed, except for attorneys and medical pro-

Table 3
Maximum OASDHI Tax per Employee
In Constant Dollars
Selected Years, 1937 — 1965

<table>
<thead>
<tr>
<th>Year of enactment</th>
<th>Maximum tax</th>
<th>Tax in constant dollarsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937</td>
<td>$30</td>
<td>$66</td>
</tr>
<tr>
<td>1951</td>
<td>54</td>
<td>66</td>
</tr>
<tr>
<td>1954</td>
<td>72</td>
<td>84</td>
</tr>
<tr>
<td>1955</td>
<td>84</td>
<td>99</td>
</tr>
<tr>
<td>1959</td>
<td>120</td>
<td>130</td>
</tr>
<tr>
<td>1965</td>
<td>277</td>
<td>277</td>
</tr>
</tbody>
</table>

a OASI only prior to 1956.
b. Adjusted by consumer price index, 1965 = 100, rounded to nearest dollar.
Source: Computations based on Table 2, Survey of Current Business, March, 1966.

8. Railroad workers, Federal civil service employees, and many state and local government employees are covered under special programs.
9. The 1965 act provided exemption for members of "certain religious sects which are conscientiously opposed to public or private insurance." The exemption, designed to relieve the Amish, whose religious beliefs had put them in serious conflict with tax authorities, has been carefully drawn up to prevent evasion by others. It specifies that exempted religious groups shall have been in existence since 1950 and must make provision for the needs of their members.
10. OASDHI, unlike the unemployment insurance program, has never made firm size a criterion of coverage.
### Chart 1
**Major Changes in Coverage under OASDI**
**1935 – 1966**

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Compulsory coverage added</th>
<th>Elective coverage added</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937</td>
<td>All workers in commerce and industry, except railroads, in continental U. S., Alaska, and Hawaii</td>
<td>None</td>
</tr>
<tr>
<td>1951</td>
<td>Self-employed (except farm and professional), regularly employed farm and domestic workers, Federal civilian workers not under retirement program, Americans employed outside U. S. by American employers, residents of Puerto Rico and Virgin Islands</td>
<td>State and local government employees not under retirement system, employees of non-profit institutions</td>
</tr>
<tr>
<td>1955</td>
<td>Farm self-employed, professional self-employed (except lawyers and medical professionals), most farm and domestic workers</td>
<td>State and local government employees under retirement system, ministers</td>
</tr>
<tr>
<td>1956</td>
<td>Lawyers, dentists, optometrists, chiropractors, osteopaths, veterinarians, and other medical professionals (except doctors of medicine), materially participating farmers, landlords, Armed Forces</td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>Most crude gum workers</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>Peace Corps volunteers, residents of Guam and American Samoa</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>Doctors of medicine</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>Hospital interns</td>
<td></td>
</tr>
</tbody>
</table>

*a. OASI only prior to 1956; OASDI prior to 1966. Source: Social Security Administration.*

professinals, in 1955; the previously excluded self-employed except for the doctors of medicine, in 1956; the physicians, in 1965.

It will be noted that a few groups continue to be covered on an elective basis: ministers and employees of state and local governments and of non-profit organizations.\(^{11}\) Workers covered under other Federal retirement programs — railroad and civil service employees — also have never been included in OASDI.

Table 4 shows the results of the changes in coverage. Coverage has more than doubled since 1940, the earliest year for which figures are available. Interestingly, coverage as a percent of total labor force increased from 54 percent in 1940 to 62 percent in 1950, even without changes in the law — presumably because more

\(^{11}\) Since 1960, coverage has been at the option of the employer alone; previously, concurrence of two-thirds of the employees was required.