Social Security: A Worldwide Issue

by Stanford G. Ross*

The social security program in the United States is entering a new era, a time to rethink and reshape this great social program to better meet the needs of the American public in the future. I am concerned that we exercise the utmost intelligence as we go about this endeavor. With that goal in mind, I have been exploring the most comparable social security systems of foreign countries to see what we might learn from their experience.

As part of this process, in late May and early June, I traveled to four countries—France, Germany, Sweden, and the United Kingdom—to discuss trends in social security abroad with responsible government officials, representatives of labor and employers, and staff at the Organization for Economic Cooperation and Development. During the month of May, the United States hosted for the first time in 15 years a major international social security gathering—a working meeting of the International Social Security Association—which afforded me an opportunity to engage in a dialogue with a wide variety of foreign social security officials. This report reflects the current state of my observations about the major issues that are confronting social security worldwide.

Summary

Serious financing problems are making themselves felt everywhere and are the major preoccupation of social security policymakers. Unfavorable demographic developments involving a declining number of contributors relative to an increasing number of pensioners are confronting all the major industrialized countries. Payroll taxes, the traditional revenue source for social security, are universally being pushed beyond previously acceptable limits.

Limited economic growth and the need for austerity in governmental budgets are causing everyone to be concerned about the ability to maintain existing benefit levels. At the same time, almost everywhere there have been major changes in social patterns that must be accommodated, particularly the increasing participation of women in the paid workforce and growing diversity in the structure of families. All these matters indicate that major structural changes are in order if social security is to provide equitable treatment under new realities.

The new economic and social forces at work today clearly have brought to an end the long period of expansion of social security programs. Social security systems are now entering a difficult period of painful adjustments in which finances and benefits will have to be closely scrutinized and carefully balanced. The optimistic expansionist philosophy that underlay social security planning ever since World War II has now changed to one of guarded hope that the best of the past can be preserved while the considerable needs of the future are addressed.

The basic purpose of this report is to set out the insights into the changes in the benefit and financial structures of social security systems that are suggested by a comparison of various national experiences. There are no easy or obvious solutions to the issues that confront us. But there are some inescapable realities that must become more widely understood if social security systems are to be maintained as successful social programs.

Comparison of Social Security Systems Abroad and in the U. S.

The report begins with a brief comparison of the major features of foreign systems with those of the United States and then describes the similar challenges we face and possible strategies for the future.

Social security in Europe will soon be celebrating the first hundred years of its existence. Virtually all industrialized countries have relatively advanced social security systems, with roots that can be traced far back into their national histories. The institutions in place before World War II were considerably revamped and expanded in its aftermath, so that at present these countries offer an ambitious array of social programs that involve virtually the entire population. Over the past hundred years, foreign countries have implemented many kinds of programs, some of which we do not have in the United States.

Typically, an industrialized country will provide old-age, survivors, and disability insurance, workers' compensation, and unemployment insurance—all of which we have here. However, in addition, most industrialized countries provide national programs of health insurance, cash sickness and maternity benefits, cash allowances to all families with children, and sometimes housing supplements.

In the United States, we do have programs that provide some of these benefits, but on a more limited scale. Medicare provides health care for elderly and disabled social security beneficiaries and Medicaid furnishes medical pro-

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Table 1.—Gross national product (GNP) and social security expenditures for selected countries, 1974 [1]

[In millions of national currency units, except for percentages]

Country	GNP	Social security [2]		OASDI	
		Amount	As percent of GNP	Amount	As percent of GNP
Belgium (franc)	2,105,000	434,835	20.6	123,983	5.9
Canada (dollar)	128,050	16,940.3	13.2	4,121	3.1
France (franc)	1,324,800	287,207.4	21.7	53,858	4.1
Germany, Federal Republic (mark)	997,000	221,583	22.3	78,482	7.9
Japan (yen)	115,429,000	7,260,559	6.3	723,449	.63
Netherlands (florin)	188,130	47,439.3	25.2	11,191.6	6.3
Sweden (krona)	248,640	60,777.1	24.5	17,854.0	7.2
United Kingdom (pound)	73,620	10,426	14.2	3,320	4.5
United States (dollar)	1,381,200	164,710	11.9	54,870	4.0

[1] Data for calendar year except: Canada, Japan, and the United Kingdom, data for fiscal year ending March 31, 1974; United States, data for fiscal year ending June 30, 1974.

[2] Broadly defined to include expenditures under public medical care systems and cash payments under public welfare programs.

Source: GNP data from **International Financial Statistics,** International Monetary Fund, various issues; social security data derived by Social Security Administration from **The Cost of Social Security: Ninth International Inquiry,** International Labour Office, Geneva, 1978.

tection for those in need. In addition, we pay cash benefits to certain families in financial hardship under our aid to families with dependent children program and our supplemental security income program. Limited housing allowances and food supplements are also available for the needy. Further, many U. S. workers receive cash benefits for sickness and maternity provided through their employment.

In contrast to the patchwork array of our public and private social programs, administered or regulated by various levels of government in the United States, foreign systems generally directly administer all of these programs through the national social security system and their programs offer more comprehensive benefits.

It is important to emphasize that such comprehensive programs cost a great deal. As indicated in table 1, most advanced industrialized countries commit a far larger proportion of their gross national product to the provision of social welfare benefits than does the United States.[1] The cost of social security and other social welfare benefits generally requires much higher social security taxes than in the United States.

Pension programs are basically financed in most countries by payroll contributions from workers and employers. In many countries, the government also contributes monies from general revenue sources. Frequently the payroll tax for the employer is much higher than for the worker, and sometimes the employer pays the entire amount.

Presently, American workers and employers together pay about 10 percent of payroll for old-age, survivors, and disability insurance. As indicated in table 2, in some industrialized countries, workers and employers pay more than twice as much as that—from 20 percent to 28 percent of payroll. In a few countries, payroll taxes are lower than they are in the United States, but that is because there is either a large general-revenue contribution or the benefit levels are comparatively low. When all the additional benefits are included, as much as 40-50 percent of payroll is spent on social benefits in the older advanced systems.

Historical factors have had a great impact on present social insurance strategies and their underlying philosophies. Some countries have viewed an expansive social security system as contributing to economic and political stability, because it guarantees that the incomes of its people will be maintained during periods of economic upheaval. Other countries consciously designed their generous social welfare programs in reaction to, and as a partial corrective for, past periods of national poverty.

The particular approaches or philosophies these countries have adopted were not laid down once and for all time. On the contrary, major changes have been made periodically. Initial expectations about costs and benefits often have not been realized. Disasters such as world wars have

Table 2.—Payroll tax rates for old-age, survivors, and disability insurance in selected countries, as of January 1, 1979

Country	Payroll tax rate [1] (percent)		
	Total	Employer	Employee
Austria	19.50	10.25	9.25
Belgium	14.00	8.00	6.00
Canada	3.60	1.80	1.80
France	12.90	8.20	4.70
Germany (Federal Republic)	18.00	9.00	9.00
Italy	23.76	16.61	7.15
Japan	9.10	4.55	4.55
Netherlands	28.20	10.40	17.80
Sweden	20.30	20.30	....
Switzerland	9.40	4.70	4.70
United States	10.16	5.08	5.08

[1] Nominal rates. Because of different ceilings and computation bases, actual rates may vary as a percent of total payroll. In Sweden, for example, where the earnings-related system is financed by a nominal rate of 11.75 percent of earnings between the base amount and 7.5 times the base amount. For total payroll, Swedish officials calculate that the effective rate is between 8-9 percent. Rates for Belgium exclude contributions for disability pensions, which are financed by additional payroll contributions to the sickness and maternity program. Rates for France are for wage earners under the general system and represent contributions for old-age insurance only, because disability and survivors pensions are financed from an additional contribution to the sickness and maternity program. Rates for Italy are for workers in industry covered under the general system. Rates for Japan are for men under the Employees Pension Program; rates for women under the same program are lower. Contributions for Japan's National Pension Program are levied as flat-rate amounts paid only by insured persons. Rates for the Netherlands include financing for work-connected disability pensions.

[1] The table is based on the most recent available data that are suitable for cross-country comparisons. The lag time required for the generation and publication of such data is a problem we hope to alleviate in our continuing efforts to promote international exchange.

intervened that required extraordinary adjustments to ensure that the systems would survive. Radical economic changes have forced leaders to undertake major structural overhauls of their programs.

To cite only one example, prior to World War II it was customary for European systems to maintain large capital reserves to help cover future benefit expenditures. On more than one occasion, these reserves were dealt lethal blows by dizzying rates of inflation and were eventually wiped out. In the aftermath of World War II, these nations set about the task of rebuilding their social security systems. And they did so quite effectively.

Partly as a result of this demonstrated commitment over a long period, social security abroad enjoys strong public confidence. Widespread fears about the destruction of the system are not evident.

Other factors also contribute to the good reputation of social security abroad. The central government in these countries often explicitly guarantees that financial commitments in the future will be met. Whatever the legal aspects of these guarantees may be, they do lend assurance to the public and promote confidence.

People in these countries also generally view the social security system as an "insurance" program. Compulsory payments out of payroll generally are not viewed as "taxes," but as "contributions." When the social security system requires that "contributions" be raised to finance future benefits, the public generally tends to be more accepting than when general taxes are raised.

Generally, we found public satisfaction with high levels of benefit protection and little concern that a large system will eventually break down because of the costs or simply by being unmanageable.

Social security officials abroad acknowledge the problems of error in the operation of their systems. They point out that the design of social security programs inevitably predetermines the degree of error that will be present in operations. Highly complex program elements, especially ones that require beneficiary reporting and self-policing, lead to a high degree of error. Simpler programs lead to greater accuracy, swifter administrative processes, and efficiencies in terms of resource costs and personnel savings.

Administrators in almost all countries expressed the view that politicians frequently opt for complexity in the interests of equity, and have not been as sensitive to administrative concerns as is desirable. We found fairly general acceptance of the notion that a significant degree of error is inevitable in operating large and highly complex income-maintenance systems. In general, while there was interest everywhere in achieving greater efficiency, this was not seen as a major issue for the system.

Perhaps because of all of these different factors, social security systems abroad rarely encounter media treatment that questions fundamental premises of the system, thereby breeding public insecurity. Occasional media criticism of social security, which is fairly universal, is usually focused on specific and limited issues.

The high level of public support for social security systems in other industrialized countries clearly enhances their capacity to make needed adjustments. There is a strong sense in some countries that trade unions, businesses, and government officials will cooperate to make the painful choices necessary to safeguard the integrity of the program. Where it is present, the sense of a basic consensus in support of social security is extremely important, because most industrialized countries face serious and difficult issues.

Issues To Be Confronted

The problems familiar to our own discussions of social security are being experienced in almost all countries with comparable systems. The universality of the financing and the demographic problems, along with the concern to equalize benefits for men and women, was surprising at first, given that these national systems differ so widely in their particular aspects. On deeper analysis, the universality of the problems is understandable because of the shared characteristics of social insurance systems and the similar economic and social developments taking place in the advanced industrialized countries.

Financing Limitations

Social security abroad is, as here, financed basically by a pay-as-you-go system, in which current revenues finance current benefits. The main sources of revenue to these systems are heavy payroll taxes, and in some cases general tax revenues.

Such taxation clearly has major economic impacts. A complaint widely expressed by employers abroad is that increases in payroll taxes raise labor costs, result in lower levels of employment, and reduce export potential as firms find it more difficult to compete with cheaper producers. Labor organizations, in turn, are concerned about the ability of their memberships, especially their lower-paid memberships, to meet any further increases in contribution rates. Interestingly, even though there is wide diversity in the specific level of contributions overseas, in almost every country the feeling is being clearly expressed that payroll taxes are brushing up against what is considered to be the maximum acceptable rate. It is feared that any increase beyond present levels could produce harmful economic, social, and political repercussions.

Destabilizing Demographic Trends

Another feature of pay-as-you-go systems is that, by their very definition, favorable demographic trends are important to smooth functioning. The economically active population pays what is needed to finance current benefits, not what is required to finance benefits after the full career of each worker.

In this sense, there is inherent stability in the pay-as-you-go system only if the demographic ratio of contributors to pensioners is stable or increasing. Inherent strain and instability arise—and require strategic adjustment—whenever the ratio of contributors to retired persons is lowered substantially. All industrialized countries have been experiencing dramatic demographic shifts that are destabilizing.

The aging of European populations has been proceeding at a much faster pace than in the United States, due to particular historical circumstances. The ratio of contributors to pensioners, which is 3:1 presently in the United States is often lower abroad. Some advanced countries already have only about two contributors for every beneficiary; and there, like here, the projections are that the ratios will become even less favorable to pay-as-you-go systems as we enter the second and third decades of the 21st century.

In addition, industrialized countries have experienced a dramatic drop in birth rates, which will provide little relief in the future to an already low ratio of contributors to pensioners.

Rapidly Expanding Disability Rolls

As in the United States, disability rolls in many foreign systems have been rising at unexpected rates. Further, efforts to rehabilitate disability beneficiaries have met with little success. We found universal failure on the part of social security systems to devise programs that reinforce a disabled person's motivation to secure rehabilitation and work. No one felt confident of the ability to manage efficiently a large and complex disability program.

Changing Social Behavior

In most countries, measures have been taken in the 1960's and early 1970's to lower the normal retirement age and to offer some alternative retirement options for workers. The tendency has been for more and more workers to avail themselves of early retirement options, while comparatively few take advantage of options to extend their working career beyond the normal retirement age of 65. Early retirement measures have been extremely popular in all countries in which they are available.

However, such policies have naturally led to increases in the number of beneficiaries. It was believed at the time such changes were instituted that the strain upon pay-as-you-go financing would be offset by favorable economic growth rates. The retirement policies were also used as a response to the problem of rising unemployment of older workers due to technological displacement.

Another common pattern overseas has been the increasing participation of women in the paid labor force. As in the United States, although at differing national rates, women have been employed in greater numbers. Thus, the traditional family pattern of a male breadwinner and a female homemaker is steadily being altered.

More fundamentally, perceptions of the role of women in the family have been altered. Women are now often perceived by themselves and by men as workers making a conscious choice between opportunities in the paid labor force and activities such as homemaking and childrearing. These developments are not without reverberations throughout society. As family patterns have altered markedly from traditional patterns, more divorce and declining birth rates are prominent characteristics.

In sum, governments until recently tended to expand their programs, believing in the capacity of healthy, growing economies to sustain such improvements. Pressures to improve benefits have in the past almost always prevailed. Now in response to financing, demographic, and social strains, social security systems have to face the necessity of undertaking difficult adjustments to come back into balance and function as well as possible in a period of austerity.

Planning for the Future: Ideas from Abroad

Throughout industrialized countries, social security taxes are high and are projected to rise still more in the medium and long term, far beyond what has been regarded previously as acceptable limits. Estimates vary, but in many countries, increases will have to be on the order of 50–100 percent over current levels in order to finance benefit levels in the year 2030.

General economic developments offer little hope of relief. Optimistic forecasts during the 1960's and early 1970's, which made expansion of social security programs seem possible and desirable, were dealt unforeseen blows by the oil crisis and the combination of recession and inflation. Now, limited economic growth is generally forecast and social security has to confront the issue of how to deal with scarce resources in the 1980's and beyond.

The consensus abroad is that, in the absence of unexpected economic and social developments, increases will have to be made in payroll taxes or in the amount taken from general revenues to face the financial problems of social security. Those alternatives seem inescapable, painful though they may be.

To help alleviate the future tax burden, countries are clearly committed to avoiding to the maximum extent possible future social security improvements that add to costs. After nearly a century of a belief in energetic expansion in the name of achieving greater social adequacy, social security is entering a new era of restraint and caution, which foreign officials sometimes describe as a "plateau."

Benefit curtailments are expected to produce some marginal savings and most countries expect to develop these possibilities to some extent. Political realities, however, suggest that major benefit reductions, even if activated only in the future and without affecting current beneficiaries, are generally not a promising strategy. In the final analysis, it is generally considered doubtful whether the current high level of benefits will be significantly changed.

Recognizing the inevitability of increasing taxes, foreign systems emphasize the importance of promoting solidarity among generations and across different income levels. The concept of solidarity is viewed as critical in facing the future financial and demographic problems.

Another development abroad, provoked by this era of limited growth and increasing taxes, is greater scrutiny of the impact of social security financing upon the economy, and vice versa. Some policymakers believe that the payroll-based system of financing is too closely tied to the business cycle, so that a downturn in the economy reverberates throughout the social insurance system. Some of them reason that social security financing should be more diversified to increase the stability of revenue sources.

Increasingly the need is being seen to harmonize social security—and income-maintenance programs generally—with the general system of taxation so that they do not work at cross purposes. In most countries, social security benefits are considered income and are taxed when total income exceeds specified levels.

The optimum use of scarce resources requires that the tax and income-transfer systems function in an integrated fashion and deliver assistance where it is needed most. Social security is increasingly viewed as a major piece of a country's economic system, and changes in social security are being placed in the context of an entire economic development strategy.

The need for effective integration of social programs also applies to private pensions. Considerable thought is taking place abroad on the fuller development of private pension systems to complement social security. Thus, several countries have either legislated mandatory private pension plans or otherwise developed them to the point where most of the labor force is covered. In at least one country, the social security system itself encourages employers and employees to develop private plans in lieu of a part of the public social security system.

As the implications of the new period of austerity in social security become more widely understood, greater recognition must be paid to the need for complementary systems and to the precise way they mesh with the social security system. Adequacy of retirement benefits can be achieved only if public and private systems work together in an integrated fashion, maximizing use of limited resources.

While exploring various solutions to the financing dilemmas, policymakers abroad have been looking for ways to handle the declining number of contributors to pensioners. Planners see the need from a logical standpoint to develop mechanisms to encourage people to work longer, either by increasing the monetary incentives through pension increments or through gradually extending the retirement age.

But they are quick to add that, although raising the retirement age is a very logical response to the demographic problem, it is not presently viewed as a likely one because of the formidable resistance it would face. On the contrary, many of the trade unions have been escalating their demands for a still lower retirement age, partly under the belief that such a strategy would make badly needed jobs available for large numbers of unemployed youth. Thus, social security systems have to somehow find a way to sort out competing considerations.

The demographic pressure would also be eased if there should be a rise in the birth rate. Public policy in several countries has been focused on the need for such a rise. Specific measures, such as cash payments to families with children and improved availability of flexible child-care arrangements, have not yet had any demonstrable effect in that regard. Yet, there is much concern that the demographic implications of the decline in the birth rate are of general significance to society as a whole—not just social security—and that the demographic situation should be viewed broadly.

Likewise, social security planners feel that no general economic and financial policies should be adopted that will have a discouraging effect on family size and childbearing because such policies would adversely affect pay-as-you-go financing.

In addition to developing public policy to encourage increasing birth rates, we found planners beginning to depart from traditional views of "disability" and "retirement" as marking a withdrawal from the labor force and active society.

The handicapped are increasingly seen as not different from other persons but basically individuals with talents and needs different from the nonhandicapped. In this light, disability and aging are being seen less as conditions to be equated with inability to work. Rather, they are increasingly considered conditions to be compensated for in such a way that the individual will be able to engage in productive work and remain within the mainstream of society. It is a broadly felt need that all the elements of the social benefit package should be designed to meet the needs of individuals without creating inducements for people to lead unproductive lives.

With this goal in mind, some planners are looking to the future with imaginative proposals to develop flexible labor-market mechanisms such as "work sharing"—the division of a full-time position into two or more part-time jobs—that can allow more possibilities for people to remain active for a greater portion of their lives. The idea of "retirement" as an abrupt termination of one's working life is increasingly viewed as appropriate only in relatively poor societies, where people work extremely hard in physically demanding occupations. Industrialized societies have developed to the point where people who choose to do so should be able to adjust their occupations to remain active in their elderly years.

One country has implemented a partial pension option, whereby individuals can combine part-time work with a partial pension between the ages of 60 and 65. Although a rather recent innovation, which has yet to be analyzed in its long-term implications, the partial pension is becoming extremely popular. It is an intriguing concept that is being considered in other countries.

Changes in the roles of men and women that have created new social realities, such as the increasing participation of women in the paid workforce and growing diversity in the structure of families, have also created pressures for accommodating modifications in social security systems. The basic concept of adult dependency under social security programs is being altered in view of the more active participation by women in all aspects of society. Many foreign systems are considering replacing benefits for dependent spouses with programs that provide benefits for women, in their own right, that are equal to those of men.

In many countries, the strategy for equalizing benefits for men and women has begun with a policy to address benefit protection for each spouse upon divorce, particularly when the wife had little or no earnings. Several countries have instituted earnings sharing, which allows both spouses, whether paid or unpaid, to share social security credits from the paid worker's earnings.

Adjusting social security records in the event of divorce is by no means the limit of future endeavors in this general area of equalizing the benefits of men and women. On the contrary, planners see the strategic intervention in the case of divorce as merely a first step in broad-based structural reform that will ultimately remove any existing bias in pension rights. There is discussion, for example, of providing benefits for homemakers, credits for years of childrearing, and disability coverage for housewives, in order to place women on a completely equal footing with men under social security.

The European Economic Community is requiring member countries to equalize benefits for men and women in the next 5 years. Our conversations with foreign officials have indicated that financial considerations will weigh heavily in evaluating various options for realizing that goal. The problem of achieving equity is serious and complex by itself, but the difficulties are compounded by the problem of reaching these goals in a period of scarce resources.

Learning from Hindsight

Our exchange of perceptions not only illuminated certain strategies for the future but was also helpful in alerting us to some pitfalls along roads that may otherwise appear to be constructive avenues.

First, the creation of large capital reserves is not a feasible approach to social insurance. Historically, such reserves have proven to be extremely vulnerable to inflation, so that their careful accumulation can be wiped out rather suddenly. Further, given the current strain on financing sources, other countries have not found it desirable to increase payroll taxes in order to create large reserves beyond what is necessary to operate a pay-as-you-go system.

Some countries have built up reserves during the early years of their programs, while benefit payments were still low relative to contributions. Once those reserves have been invested, they serve broader economic, financial, and social goals, such as stimulating investment, providing housing, or making loans available to employers or local governments. To avoid dislocations that would ensue from withdrawing capital to make social security payments, benefits are paid through current revenues, not the reserves. Thus, creating large reserves is not only financially burdensome but has not solved the problems facing pay-as-you-go systems in later periods of financial strain.

As previously indicated, a number of countries use general revenues to supplement receipts from payroll contributions. Many European countries have been using a value-added tax (VAT) to generate these revenues. As shown in tables 3 and 4, the rates are high and VAT yields significant amounts of general revenue. VAT seems to provoke less public resistance than would increases in direct income taxes, largely because VAT is hidden from the consumer. Most countries that have adopted VAT regard it as an important and permanent aspect of their tax system.

The VAT abroad is not earmarked for social security anywhere and is therefore not perceived by social security officials or by the public as a source of social security financing. Rather, VAT is viewed as a source of general funds to the central government. It was, however, introduced in some countries consciously with the financing of specific social programs in mind.

It is generally believed abroad that the only dedicated revenue sources that can logically be earmarked for an earnings-related social insurance system are those based on extractions from payroll, as payroll taxes (or employee/employer "contributions"). Under this type of earmarking, workers see a direct relationship between the taxes they pay on their earnings and the earnings-related benefits they will receive. Once revenues beyond payroll extractions are involved, earmarking the revenue sources is not viewed as serving a useful function since it may reduce future fiscal policy options.

A further significant lesson from the experience of for-

Table 3.—Value-added tax (standard rates) in selected countries, as of June 1979

Country	Percent
Austria	18
Belgium	16
Denmark	20.2
France	17.6
Germany (Federal Republic)	13
Ireland	20.0
Italy	14.0
Luxembourg	10
Netherlands	18
Norway	20
Sweden	17.1
United Kingdom	15

Source: U.S. Department of the Treasury, Office of Tax Analysis.

Table 4.—Federal, State, and local tax revenues for selected countries as percent of gross domestic product, by type of tax, 1975

[Figures in parentheses indicate country ranking]

Country	Total	Indirect taxes, sales and excise [1]	Direct taxes							
			Total [2]	Social security 3			Corporate income	Non-corporate income [4]	Property [5]	Other [6]
				Total [3]	Employer	Employee and self-employed				
Belgium	41.43 (5)	10.87 (6)	30.56 (4)	13.14 (5)	8.44 (4)	4.70 (5)	3.07 (6)	13.24 (4)	1.01 (12)	0.10 (8)
Canada	33.98 (9)	10.94 (4)	23.04 (11)	3.22 (12)	(7)	(7)	4.67 (2)	11.32 (7)	3.13 (3)	.70 (4)
Denmark	43.05 (4)	14.71 (1)	28.34 (5)	.48 (13)	.31 (12)	.17 (12)	1.37 (13)	23.86 (1)	2.57 (4)	.06 (10)
France	36.90 (6)	12.44 (2)	24.46 (9)	14.72 (3)	10.61 (2)	4.11 (6)	2.00 (9)	4.58 (13)	1.46 (9)	1.70 (2)
Germany (Federal Republic)	35.22 (8)	9.37 (8)	25.85 (7)	12.03 (6)	6.60 (7)	5.43 (4)	1.56 (12)	10.60 (8)	1.09 (11)	.57 (6)
Italy	32.34 (10)	9.34 (9)	23.00 (12)	14.83 (2)	11.92 (1)	2.91 (9)	2.04 (8)	4.95 (12)	1.17 (10)	.01 (11)
Japan	20.23 (13)	3.67 (13)	16.56 (13)	5.09 (11)	2.63 (11)	2.46 (10)	3.43 (4)	5.07 (11)	1.94 (7)	1.03 (3)
Luxembourg	46.74 (2)	9.72 (7)	37.02 (1)	14.05 (4)	7.80 (6)	6.25 (2)	7.22 (1)	12.78 (5)	2.34 (5)	.63 (5)
Netherlands	46.90 (1)	10.91 (5)	35.99 (2)	17.99 (1)	8.40 (5)	9.59 (1)	3.61 (3)	12.66 (6)	1.48 (8)	.25 (7)
Sweden	45.96 (3)	11.48 (3)	34.48 (3)	8.89 (7)	8.47 (3)	.42 (11)	1.99 (10)	21.17 (2)	.51 (13)	1.92 (1)
Switzerland	29.49 (12)	5.90 (11)	23.59 (10)	8.49 (8)	3.05 (10)	5.44 (3)	2.46 (7)	10.51 (9)	2.13 (6)	....
United Kingdom	36.77 (7)	9.24 (10)	27.53 (6)	6.71 (10)	3.75 (9)	2.96 (8)	1.92 (11)	14.29 (3)	4.54 (1)	.07 (9)
United States	30.31 (11)	5.49 (12)	24.82 (8)	7.42 (9)	4.18 (8)	3.24 (7)	3.29 (5)	9.98 (10)	4.13 (2)	....

[1] Includes general sales, value added, and specific excise taxes.

[2] Computed by subtracting sales and excise taxes from total.

[3] Includes employer, employee, and self-employed contributions. Broadly defined to include all tax payments to institutions of general government providing social welfare benefits, provided they are levied as a function of pay or a fixed amount per person. For the United States includes contributions to the railroad retirement fund, unemployment insurance fund, workmen's compensation fund, and civil service retirement program—in addition to the more familiar payments for social security made pursuant to the Federal Insurance Contributions Act.

[4] Includes income taxes on individual and unincorporated enterprise, such as proprietorships and partnerships.

[5] Includes taxes on net wealth, immovable property, estates, and gifts.

[6] Includes taxes on employers based on payroll or manpower and miscellaneous taxes that cannot be classified within a specific direct tax category.

[7] Data not available.

Source: Derived by Department of the Treasury, Office of Tax Analysis from **Revenue Statistics of OECD Member Countries, 1965-1975.**

eign countries is that we must avoid overcommitting the future. Social security planners everywhere suggested that politicians had often been prone to promise too much to the people in terms of delivering generous benefits for which there are inadequate resources and which will cause even greater strain in the future. There is increasing concern that younger generations must not be overly burdened if solidarity with older generations is to be maintained in the long term.

Some type of means-tested program is generally a calculated part of social security abroad, designed to meet the needs of those who are not covered adequately under the social insurance system. The use of means-tested programs for such goals is both vital and necessary.

In the quest for controlling costs, however, certain strategies do not appear to work satisfactorily. Some countries have attempted to make too great a use of means-tested benefits to bring low basic pensions up to a minimum level. Overly expanded means-tested programs inevitably lead to higher error rates than in the standard pension programs, creating disturbing side effects like fraud, waste, and abuse against which governments then have to mount aggressive corrective action programs.

In addition to the administrative problems, the stigma attached to such means-tested programs often creates the unfortunate result that many of those who truly qualify and for whom the benefits were intended, never apply for them. A further problem is that means-testing inevitably leads to creating certain traps that discourage people from working because the additional earned income will be offset by a substantial loss of benefits.

Many advanced systems, which initially introduced their social insurance schemes with extensive means-tested provisions, have since moved away from that policy. Means-testing is generally looked upon as needing to be given as limited a role as possible abroad, and it is not advocated as a realistic solution to the financial problems of social security. Instead, the prevailing view is that social security should have a commitment, understood by all, to maintain substantial replacement rates in the pension programs, thereby avoiding the need to operate overextensive supplementary means-tested programs.

Conclusion

The results of extensive research, firsthand information secured during my trip and in discussions with social security officials visiting in the United States, confirm that there is everywhere a commitment to a strong social security program that meets adequately the needs of all of the citizens of an industrial nation. There is universal agreement that social security is a bedrock social institution of a modern advanced society.

But within this basic affirmation of social security, it is clear that the problems of financing these programs everywhere loom large. We are indeed confronting a worldwide issue which goes to the very viability of the institution.

No easy solutions are to be found to the problems facing social security, either here or abroad. Generally, planners and policymakers expect to increase taxes and control expenditures in the future. Benefit improvements will be slowed or ended entirely, and marginal relief will be sought to the extent possible through limited benefit curtailments.

In facing the challenges ahead, the United States is in a fortunate position relative to most other countries. Our overall program of benefits and services is generally not as expansive as in other industrialized countries, leaving us with far greater room to creatively structure our programs in the future. Our public expenditures on health and disability are relatively less than in several industrialized countries, and our pension benefits—while higher than some—are certainly not among the highest. Also, we still have available to us, if they are seen as necessary and desirable, the financial resources that many other countries have already put to use, such as general revenues from the value-added tax or other sources.

A great deal more work is required in the area of forward planning to build flexibility and adaptability into institutional arrangements affecting social security. Interestingly, the United States social security system already does more in some areas than other countries do. Our projections are made further into the future and our findings are given wide public circulation, which is often not the case abroad.

But a major conclusion derived from a study of the foreign experience is that the United States social security system cannot solve its challenges in isolation from larger economic and societal developments. In particular, careful analysis must be given to the interrelationships between social security and the economy and the general tax system. What is vitally necessary is a broad-based planning effort, so that an institution as large as social security, with expenditures now equal to almost a quarter of the Federal budget, can be effectively integrated into overall national policies.

We need to know, for example, what effects social security policies exert upon the labor force and what the full implications of the various taxing alternatives are, not only in terms of revenue, but also in terms of their effects upon prices and labor costs. We need to understand what impact social security policies can have upon personal savings, and in what ways programs outside the immediate area of social security can exert a beneficial influence by promoting the acquisition of personal assets that a worker may draw upon in retirement, in addition to social security benefits. In short, a great deal of careful analysis has to be undertaken, which must be performed openly and unhampered by bias of any sort.

It is also clear that our more difficult challenges lie outside the analytic area. A new social vision must be developed, especially with regard to overturning conventional views of the handicapped and the elderly as classes of persons incapable of productive activity. A spokesman in one country described the issue by saying that in the past, handicapped persons were viewed as being incapable of work. Now the growing view is that every person has some kind of handicap that society must help the individual overcome. The question is how to develop sensitive and strategic intervention that will enable each individual to be productive and in the mainstream of the economic and social life of the country.

Likewise, as we look ahead to a society in which those over 65 form a major proportion of the population, our vision must alter. We must as a Nation make use of the inestimable talents and experience that are all too often wasted today because of archaic views of the elderly and labor-market mechanisms that are too inflexible.

Finally, the political dimension of the issues perhaps poses the most fundamental challenge. Almost everywhere the pressure for expansion of social security in prior periods has come from trade unions, which have been the traditional and virtually sole constituency strongly supporting the social security system. Employers have, in varying degrees, depending upon the country, cooperated with and at times resisted these expansions. Today, as we enter a new era, broader and more varied constituencies will be necessary to promote the balanced support that must underlie the difficult adjustments that are necessary to preserve social security in the future.

Change to a more varied political base for social security appears to be going on in almost every country we visited. In some places, acceptance of the need for changed attitudes and roles appears to be moving faster than in other places where confrontation and acrimony seem more prevalent. In the end, since cooperation and collaboration are necessary to achieve change, it is a question of when enough segments of society will come together to provide a consensus for the new shape of social security.

The major issue in the United States in the next several years may well be whether we have the will and the ability to develop a sufficient consensus as to the changes that are to be instituted to adjust our social insurance system and keep it sound. We must as a Nation be willing to face difficult problems with a sense of responsibility for the long-run implications of our actions, not only in terms of social security, but for society and the economy as a whole. Adjustments are inevitably painful. To make them successfully, it is important that a sense of cooperation and unity develop around basic national goals.