have an escalator clause under this program. Currently this would only cost a few hundred million dollars a year if inflation were kept, say, at 2 percent a year. (This is not meant to be suggestive of a goal of 2 percent inflation.) I make this point even though in general I consider escalator clauses rather dangerous, for they tend to aggravate the inflationary process.

One other aspect of old age and survivors' and disability insurance program should be noted, and that is the problem of reserve financing. We have now accumulated more than $20 billion of reserves in this program, and the current estimate is more than $200 billion by the year 2020. Policies in the 1950's to increase taxes and reserves are to be explained in no small part by a fear that the old age account may be unbalanced later on and recourse would have to be had to general revenue. I find little to support a large reserve theory, and, in fact, in the 1930's, we had abandoned the general principle of a large reserve on the theory that this tends to have a deflationary effect on the economy; and also on the theory that every generation has to provide the resources for its own old, irrespective of financing policy. I would readily admit, however, that financing policy is not exactly an irrelevant problem.

But these large reserves, which are on the whole underestimated because they are based on the theory that present wage levels will continue, are not easily supported. In fact, we might very well estimate that the reserves on the basis of realistic anticipation of the wage levels might very well not be $200 billion but $600 to $800 billion by the early part of the 21st century. But what actually happens, through the inflationary process and the rise of per capita income related to other factors, such as productivity, is that these large reserves are greatly eroded through the process of inflation and the rise of per capita income. Hence, there is a considerable waste here. It would be much better either to reduce the tax rate or, more sensibly, to increase benefit rates now and not build up such large reserves. In this manner the effects of inflation might be considerably neutralized.

The management of the program is subject to one other serious criticism—namely, that in the 1940's, when inflation was in vogue, no serious attempt was made to increase payroll taxes. This was just the period when payroll taxes should have been increased. Related also was the failure to raise the amount of wages subject to taxes. Under the original legislation, the ceiling of wages to be covered was put at $3,000, and this figure was unchanged until 1950, when it was raised to $3,600. Even by 1958 the rise was only to $4,800. A ceiling related to wage trends should be about $9,000. At any rate, it ought to be considerably above $4,800. Had the ceiling been raised with the inflation, and with the rise of per capita income, then, of course, more resources would have been available; and particularly in view of the manner in which the program works, the low-income groups would have especially gained from such increases in coverage. Benefits would have been more nearly adequate. Even today (1959), benefits average only about $70 monthly.

In discussing the old-age insurance program, I should add one other point—namely, that to some extent adjustments of benefits are not made merely through an increase in the benefits, say, for the retired worker, but also, as the years go on, in making benefits avail-