taxes at a rate of about 2 percent. The Government should have increased the payroll taxes during these years as the excess of purchasing power contributed to the inflation. Also the Government was excessively worried about the burdens on the economy later resulting from increased benefits in the 1930's and 1940's. Actually the major problem is one of providing resources for the old, and these resources will be paid irrespective of the financial arrangements that are made. Indeed, some financial arrangements facilitate this transfer to the old who are not working, and others make it much more difficult.

In the 1950's both taxes and benefits rose greatly and larger reserves began to accumulate. Even in this period the benefits might have expanded somewhat more than they did, and there should not have been so much emphasis on the need of large reserves. As we have noted, an accumulation of a large reserve with the likelihood of continued rises of prices and average wages means that the reserves would yield much less in resources for the old than might have been expected when accumulated. It would be much better to spend a large part of these reserves on benefits or use them as a means of reducing old-age payroll taxes. Insofar as under the pressure of rising prices and incomes the current old have received much more than they have paid in, we might argue that there is a case here for the Federal Government financing part of this program through general revenues. In this manner also it would be easier to offset the rise of prices and the rise of average incomes.

From the experience of the last 25 years or so, we can certainly contend that a frequent adjustment of old-age insurance is necessary in view of the annual changes in prices and average incomes. These arrangements should not only provide for adjustments in benefits and taxes but also in adjustments of general revenue contributions.

Chapter 6. Unemployment Compensation

INTRODUCTORY

The trouble with our unemployment compensation program is not merely that we have had a substantial amount of inflation. In order to understand the shortcomings of the unemployment compensation program we have to discuss the program briefly before we discuss the relevance of inflation. Had the program developed as originally anticipated; namely, that contribution rates would be close to 3 percent of payrolls, and had merit rating not made such inroads by greatly reducing the payroll tax, inflation would not have had such serious effects.

One respect in which unemployment compensation proved inadequate was the setting of a maximum benefit amount per week. On December 31, 1937, that maximum benefit in most States was $15 per week, with 95 percent of the covered workers subject to this maximum. By 1952 more than 50 percent had maximum weekly benefit amounts of $27 or less. The average maximum benefit had risen somewhat less than the price level and much less than the increase in average weekly wages. In 1939 the maximum benefit was in excess of 60 percent of the average weekly covered wage in 31 States and less than 50 percent in 2 States; but by 1952 the total was in excess of 60 percent in 2 States and less than 50 percent in 40 States. The average weekly un-