(9) To produce a balanced model, it was necessary at a later stage in the construction of the projections to make assumptions about the rate of personal saving to disposable personal income. For the A set of projections, the assumption was 5 percent, for the B set, 5.5 percent.

It is worthy of note, in connection with these assumptions, that modest variations could be made without serious impact on the models that are projected in this study; but major changes in the assumptions would undoubtedly have important effects both on the magnitudes developed in the projection and on the analysis of their implications for policy. Specifically, should defense requirements—particularly for the Vietnamese war—mount substantially beyond what has been assumed and continue along—more than perhaps a year—beyond the termination assumed for the model, we would eventually need to reconsider the implications of this factor for the model.

The assumed changes in overall prices (GNP deflator) were chosen somewhat arbitrarily as being reasonable standards of achievement under the assumptions of 3 and 4 percent unemployment in the two sets of estimates. It is quite possible to arrive at other estimates according to what one assumes to be good or poor performance in maximum employment.

It should be stressed that the assumed rates of change in the GNP deflator and in wage rates are meant to represent effectively stable prices after allowance is made for the particular way in which prices and wages are handled in the national income accounts. The assumptions made above are roughly consistent with a stable wholesale price index but with rises in other non-goods prices to reflect two factors: First, the indexes treat changes in government wage rates as a change in the price of government services. Hence, if, as in this model, it is assumed that government wage rates move up in step with private wage rates, then the index will show a rise in the price of government services, there being no allowance for changes in productivity in this particular case. Second, the model assumes that overall shares in national income between wages and salaries, on the one hand, and other income shares, on the other, are constant. To insure this, it is necessary to make allowances in wage rates for the impact of rising service prices. If, alternatively, the model had assumed that all prices would be completely stable, that is, the GNP deflators were constant over the next ten years, then the parallel assumption for wages would be to keep them precisely in line with changes in productivity.

The reader is warned, too, concerning the basis for the assumptions about rates of personal saving. The average personal saving rate for the years 1961–65 was 5.5 percent, the rate used for the B projections. This seemed reasonable in view of the fact that this B set assumes a 4-percent unemployment rate. The lower saving rate used for the A set of projections was chosen because more of the employed labor force would be in the low-income group at a 3-percent rate of unemployment than would be the case were the unemployment rate to average 4 percent. It is a familiar phenomenon that low-income families generally save less as a proportion to their income than those in higher income classes. The increase in the proportion of the lower income group in the total labor force would naturally tend to reduce the actual saving rate.