

PERSONAL INCOME AND DISPOSABLE PERSONAL INCOME

The new elements needed for these projections are: Contributions for social insurance, transfer payments, interest paid by Government and consumers, and personal taxes.

1. *Contributions for social insurance.*—These projections were obtained primarily on the basis of relations of the major components to taxable wages and salaries with adjustments made for changes in tax rates and base in accordance with present legislation.

2. *Government transfers to persons.*—The projections are based on estimates of number of beneficiaries. For OASI these were estimated from a trend of past years; for unemployment insurance, the number was projected from a relation of average unemployment insurance beneficiaries to unemployment in high employment years. For other transfers, a trend was used. Benefits due to added programs in present legislation which apply to future years were based on projections for 1970 by the Department of Health, Education, and Welfare and other agencies; for 1975 increases were extrapolated on a judgmental basis.

Transfer payments to foreigners were projected from a trend for recent years.

3. *Net interest paid by the Government.*—Federal net interest paid was projected from a relation to gross Federal debt (assumed to be held at a ceiling of \$335 billion) and interest rates; a slow rise in interest rates from those in 1964 was assumed. State and local net interest paid was projected lower than the level in recent years on the assumption that interest rates will be somewhat lower.

4. *Personal taxes.*—Projections of Federal personal taxes were derived from a relationship of these taxes to personal income less transfers for the period 1964–66 when tax rates were reduced. State and local personal taxes were related to personal income less transfers for the period 1960–65.

5. Finally, to obtain projections of personal outlays, it was necessary to estimate personal outlays other than purchases of goods and services. These were based on a relation to GNP for the period 1955–63, assuming some reduction from the high interest rates of the past two years.

The projections developed in these stage 1 extensions of the past into the future are summarized in tables 4 through 10. It cannot be too strongly emphasized that these are preliminary estimates obtained by projecting the past into the future without adjustment for any imbalances or distortions which the economy would normally adjust to as it went along, and without allowing for any changes in policy which might be made in response to these developing imbalances. They are intended to point up the areas in which adjustments must be expected and which may call for policy shifts in the years ahead. They set the background for the next stage in the two sections below which analyze these imbalances and the policy choices which they present. The final projections are in the last section of this report.