

in the price level of 2 percent, a growth rate of earnings at 5 percent per annum may be speculated. With respect to the maximum taxable earnings, a continuous upward adjustment of 5 percent per year may also be contemplated.

The assumption of a 5-percent annual rate of increase in money wages does not appear unreasonable in light of the record in the post-war period. From 1947 to 1965, the average annual rate of gain in output per man-hour in the private economy was 3.2 percent. During the same period, the compensation per man-hour in current dollars rose by an average annual rate of 5 percent (a 3.2-percent rise in real terms).¹⁷ In a recent study of the potential and problems of economic growth in the United States to 1975, the Joint Economic Committee uses two sets of assumptions. For the A model, (1) productivity in the private sector is assumed to advance at 3.5 percent per year from 1966 to 1970 and at 3.1 percent annually from 1970 to 1975, and (2) price level is assumed to rise at an annual rate of 2 percent from 1966 to 1975. For the B model, (1) the annual growth rate of productivity is assumed to be about 3 percent throughout the entire period, and (2) the rate of price inflation is assumed to be 1.5 percent per year. Wage rates in both the public and private economy are assumed to rise by the sum of the annual rates of gain in productivity and in consumer prices. In other words, wage rates in the A model will rise at 5.5 percent annual rate from 1966 to 1970 and at 5.1 percent from 1970 to 1975, and they will increase in the B model by 4.5 percent per annum for the entire period, 1966 through 1975.¹⁸

The effects on tax-benefit ratios when worker's earnings and the maximum taxable earnings are both rising at 5 percent instead of at 3 percent per year are illustrated by the ratios in case IV. All ratios except one are less than unity for the average earner as well as for the maximum earner. The highest ratio for the maximum earner is 1.01; for the average earner, it is 0.78.

Analogous to case III, case V may be considered. This is a case in which maximum taxable earnings and worker's earnings are both rising at 5 percent per annum, but benefit payments are assumed to increase at an annual rate of 4.2 percent. As expected, tax-benefit ratios in this case are lower than those in case IV. The highest ratios for the maximum and for the average earners are 0.78 and 0.60, respectively.

C. INFLATION PROOF SOCIAL SECURITY

Fixed dollar income shrinks in purchasing power during times of price inflation. Social security systems the world over have attempted to adjust their benefits in the face of inflation. In addition, the benefit computation formula itself has been changed over time. The mecha-

¹⁷ See table 11 in *The Economic Situation in 1966*, Statement submitted to the Joint Economic Committee, U.S. Cong., by Arthur M. Ross, *Hearings on the 1966 Economic Report of the President*, Feb. 8, 1966 (mimeographed).

¹⁸ *U.S. Economic Growth to 1975: Potential and Problems*, Joint Economic Committee, U.S. Congress, 89th Cong., 2d sess. (Washington: D.C., Government Printing Office: 1966, p. 8). It should be mentioned that lower rates of productivity gain and price level advance have also been used in projections. The National Industrial Conference Board assumes for the total economy an annual growth rate of productivity at 2.85 percent to 1975 and an annual price inflation rate of 1.2 percent to 1975. "The Economy in the Next Decade," *The Conference Board Record*, vol. II, No. 12, December 1965, pp. 3-23, esp. pp. 9 and 10.