

Unrealistic though they may seem, the ratios of case I are not meaningless for they reflect the provisions of existing law. However, since the present law is virtually certain to change, these estimated ratios are of doubtful predictive value. With these ratios as a point of departure, I explore five other possibilities under alternative assumptions regarding the maximum taxable earnings, workers' earnings, and the benefit formula. The tax rates used in all cases I through VI are those in effect now and those scheduled in the present law for future years.

The assumptions underlying the second projection are more realistic and hence more meaningful. Case II is illustrative of how tax-benefit ratios would be affected by rising earnings and a rising maximum taxable earnings base. Case II assumes that the taxable earnings ceiling will be adjusted upward at 10-year intervals and the workers' earnings will increase at a rate of 3 percent annually. Case II uses the benefit formula in the present law.

From 1940 to 1966 benefit payments to the retired worker had been increased at an average annual rate of 4.2 percent. In the light of this historical record, it would be of interest to compute the effects on tax benefit ratios of a changing benefit formula, without altering the conditions of the maximum taxable earnings and the workers' earnings assumed in case II. Case III, in which benefit payments are increased annually by 4.2 percent, is set up for such a purpose. The tax-benefit ratios in case III are all lower than those in case II. As compared with the ratios in case I, the ratios in case III are more than 50 percent less. The maximum earner loses only in one case, having a ratio of 1.07, whereas the average earner loses in none.

The effects on tax-benefit ratios when workers' earnings and the taxable earnings maximum are both rising at 5 percent instead of the 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, is case V in which maximum taxable earnings and workers' 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.

Cases III and V are illustrative of the effects on tax-benefit ratios of increases in benefits which allow for inflation plus something more. It would be of interest to appraise the effects on tax-benefit ratios of just continuous and automatic adjustment for price inflation. Case VI assumes that the maximum taxable earnings and the workers' earnings both rise at 5 percent per annum and that benefit amounts are raised annually in accordance with the assumed rate of advance in the general price level of 2 percent. Tax benefit ratios in case VI are higher than those in case V but lower than those in case IV. None of the ratios are in excess of unity either for the maximum earner (with the highest ratio of 0.89) or the average earner (his highest ratio being 0.69).

In order to examine the proposition that a young worker of today will receive more financial protection if he purchases private insurance with the tax dollars he and his employer are paying into social security, it is necessary to compare these two methods in terms of the compara-