



The No Economist/ Policy Analyst Left Behind Test for Social Security

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(President Bush believes in testing. President Bush has a mandate.) President Bush's Social Security Commission assumed that stocks would give an average return of 6.5 percentage points above the rate of inflation over the next seventy five years. The commission uses the Social Security trustees projections, which show that profit growth will average 1.6 percent above the rate of inflation over this period. The current ratio of stock prices to corporate earnings is 25.8 to 1, which means that corporate earnings are on average equal to 3.9 percent of the price of a share of stock.

Use this information to show a set of capital gains and dividends that produces the 6.5 percent rate of return assumed by President Bush's Social Security commission. Any economist/policy analyst unable to complete this exercise in less than 1 hour must be retrained until they are competent.

TABLE 1
No Economist/ Policy Analyst Left Behind Test

Years	Avg. capital gain	Avg. Dividend Yield	Total Return
2005-2015			
2015-2025			
2025-2035			
2035-2045			
2045-2055			
2055-2065			
2065-2075			

TABLE 2
CEPR Projections

Years	Avg. capital gain	Avg. Dividend Yield	Total Return
2005-2015	2.2%	2.3% (@60% of earnings)	4.5%
2015-2025	1.5%	2.3% (@60% of earnings)	3.8%
2025-2035	1.5%	2.3% (@60% of earnings)	3.8%
2035-2045	1.5%	2.3% (@60% of earnings)	3.8%
2045-2055	1.5%	2.3% (@60% of earnings)	3.8%
2055-2065	1.5%	2.3% (@60% of earnings)	3.8%
2065-2075	1.5%	2.3% (@60% of earnings)	3.8%

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