tween a given increase in prices or a given rise of output. The great current debate is whether we should sacrifice stability of prices to some extent in order to achieve larger degrees of growth and less unemployment. Of course, we all would acknowledge a 10 percent rise of output and a 1-percent inflation as splendid public policy, just as we would all denounce a policy that yields a 10-percent rise of prices and a 1-percent increase of output.

INCIDENCE OF INFLATION ON GOVERNMENT

What of the incidence of inflation on Government? Undoubtedly, because of the time consumed in the process of increasing public expenditures to a changing price level, there is a tendency when inflation progresses for Government to increase its spending less than the automatic rise of receipts. The gains are especially large for the Federal Government where receipts tend to rise more rapidly in response to a given amount of inflation than for State and local governments, which on the whole have more inflexible and less elastic tax revenues. Government, of course, also gains qua debtor, for one of the results of inflation is the financing of debt with dollars reduced purchasing power. The largest losses through inflation experienced by those who hold Government securities are likely to be felt by individuals and others who hold long-term securities. In general, financial institutions other than insurance companies and mutual savings banks tend to hold short-term securities, and therefore they have an opportunity frequently to adjust their holdings to the changing price level. Insofar as individuals have stakes in insurance companies and financial institutions, they, of course, suffer the losses resulting from the depreciation of the bond holdings of the institutions. In general, we should note that the upward adjustment of interest rates to inflation tends to lag greatly, though by 1959 there was some evidence that interest rates were responding more to the inflation. As individuals dispose of their Government bonds and other fixed return assets and move into equities, the rate of interest on new issues tends to rise as the prices of old issues depreciate. A Treasury issue of a 5-percent 5-year Federal note in 1959 is eloquent testimony of this process.

In general, it is evident that tax receipts respond much more to inflation when the dependence is largely on direct taxes, such as income and corporation taxes, and on the whole receipts from sales taxes respond more quickly to inflation than the general property tax. In an economy with rising prices and rising per capita incomes, any governments that are dependent on a general property tax are likely to suffer greatly. For example, from 1938 to 1948, the yield from a general property tax rose only from $4.4 billion to $6.1 billion, falling from 34 percent of total governmental revenue to 12 percent. By 1957, however, the yield was over $13 billion and 13 percent of the total tax revenues. This rise is explained largely not so much by the increase of assessments and rates in response to inflation and rising incomes of existing property, but rather to the tremendous increase of new construction. In the 9 years from 1948 to 1957 total private construction rose by $241 billion. Even without reassessments of old property and increase of tax rates, and on the assumption of a $30 rate per thousand, the new construction would yield more than $7 billion of additional general property tax revenue, or roughly the increase from 1948 to 1957.