

Taxes that respond well to rising income and prices, such as the income and corporate taxes, are increasingly used. The ability of the Federal Government to finance the large demands being made upon it, is explained in no small part by its recourse to direct taxes. Corporate and personal income taxes of all governments accounted for about 60 percent of total taxes by 1957 as compared to only 23 percent in 1938, and 24 percent in 1927, and virtually no contribution in 1902.

Under the pressure of losses of general property taxes, that is, the failure of revenue to respond to rising prices and incomes, State and local governments increasingly depend upon sales receipts and the like. In 1927 these taxes accounted for one-quarter of State revenue, but by 1957, they accounted for 60 percent of total State revenue.

As a result of the rise of prices and incomes and the failure of revenues from property taxes to respond adequately, and even the inadequate help from sales receipts and taxes, the Federal Government tends increasingly to finance State and local governments. In other words, the flexibility of the Federal tax programs in periods of rising prices and incomes is to some extent passed on to other governments. In a similar way, the State governments with more responsive taxes tended to finance local governments increasingly.

Again, we note that under our present system of taxation, inflation tends to result in larger tax receipts as incomes rise, and therefore the taxpayer has to pay a higher rate of tax at higher brackets, an automatic result of inflation on tax receipts. Quite apart from any change in the statutory tax rates, inflation tends to shift taxpayers into higher brackets income tax liability and therefore increases the effective tax rates.

WELFARE PROGRAMS: OLD AGE INSURANCE

What of welfare programs and inflation? Here is one of the costly areas where inflation has a serious effect, for those who suffer are generally low-income groups with little capacity to increase any supplementary income. One reason for this is that adjustments in their benefits are made slowly in response to rising prices and income. Insofar as the financing is done by State and local governments with their unresponsive taxes, the danger is even greater.

Under our most important insurance program, old-age, survivors, and disability insurance, the effects of inflation in the forties were serious indeed. From 1938 to 1948, in dollars of stable purchasing power, the average benefits dropped by about one-third. The result was that the beneficiaries under this program experienced a reduction of real income of about 50 percent in relation to the rest of the population, which had experienced a substantial rise in their real income.

By 1950, however, the Federal Government began to revise the program every 2 years and this has continued up through 1958, so that by 1958 the real value of benefits under this program had increased substantially above the prewar level, though not as much as the real per capita income of the whole population. This experience does suggest the need of numerous revisions of the tax and benefit programs if the inflation is not to have a serious effect on the most vulnerable groups in our society—namely, the old who primarily are not members of the labor market and therefore are inhibited in any attempts to adjust their income to the rising price level. In fact, we might argue that if a 2 percent inflation is absolutely necessary, it would be wise to