

Before discussing the general structure of our tax system, I should point out that an increasing proportion of general revenue comes from insurance trust revenue, except from 1938 to 1948. All governments, by 1957, were receiving \$12.3 billion in insurance trust revenue as against \$1.6 billion in 1938 and, of course, the largest receipts of this nature were Federal Government, with an increase from \$630 million to \$8.7 billion from 1938 to 1957. For State governments the rise was from \$890 million to \$3.2 billion.

These trust funds or trust revenues raise an especially serious problem with the trend toward inflation and rising income payments. In a general way, one would expect that these funds would pay out in various benefits, for example, old age or unemployment, an amount that would correspond roughly with the rise of income on a per capita basis. We shall discuss these various funds much more fully in a later chapter. I should say a word about the problem here. Generally, whatever the program is—for example, it may be a civil service retirement program or an old age insurance program—the assumption is that the benefits have been paid out on the basis of the income at the time of retirement. Therefore, if benefits match the high income at the years of retirement, it can be said that these programs would, in a general way, provide benefits that match the rise in per capita income. Actually, in practice, this does not tend to happen. In some instances, the benefits are given as a flat sum. This is perhaps more true in private benefit programs than in public. Even when the sum is not a flat sum, it is tied to some extent to current wage levels rather than wage or income levels at time of retirement. The average actuary does not generally assume that, for example, 25 years from now even without inflation, the average per capita income will be about twice as large as it is now. If we assume inflation, the rise in per capita income would be even greater. Therefore, adjustments have to be made frequently, but they are often greatly delayed and therefore the benefit payments not only frequently do not keep up with the rise of prices but even more so they fall greatly, relative to the rise of per capita income. In this connection, it is of some interest that, in 1957, the proportion of insurance trust revenue to total general revenue was roughly the same as in 1938, and that despite the tremendous growth of these insurance programs. At least in relation to the total position of government, these funds are becoming surprisingly unequal to the demands being put upon them and suggest the need of later periodic upper revisions of benefits which would be financed either through general taxation or much larger increases in payroll taxes.

In this connection, it is of some interest that under the old age and survivors' insurance program, the most important of all these programs, the assumption made by the actuary is that wages will not change. Obviously, insofar as they do change, benefits would have to be adjusted to the rising price and wage level.