not always been consistent with the needs of local and State government. For example, the largest increases have been in such matters as welfare programs and highways, though perhaps the greatest needs have been in education. To the last, the Federal Government makes a very small contribution. Moreover, in making these allocations, the result is a distortion in the spending programs of States and local governments because of the temptation to spend more where the Federal Government makes matching funds available.

It might, therefore, be desirable for the Federal Government to raise more money through direct taxes and allocate some part to other levels of government. Indeed, there are some disadvantages to this method of finance, and in particular the one that State and local governments may not be able to anticipate too accurately what their revenues will be as a result of the yield and division of the taxes collected by the Federal taxes. But this particular approach has the great advantage of eliminating the problem of interstate competition which keeps State and local revenues at a relatively low level and also results in starving certain essential services.

In general, it is clear that the trends in tax structure and the increasing participation of the Federal Government facilitate the collection of revenues as inflation and rising incomes continue. The possibilities of exploiting rising income, whether due to inflation or rising productivity and increases in the labor market, have steadily increased since early in the century.

Chapter 5. Welfare Programs and Inflation

INTRODUCTORY

Inflation is especially costly to those who have low incomes and whose incomes do not respond to rising prices. For this reason we should have a careful look at all welfare programs, and particularly the insurance programs, for after all, insurance is an attempt to provide security through prior payments. In 1934–35 total social welfare expenditure in the United States, according to the Social Security Board, was $7,872 million. By 1945–46 the total had risen to close to $12 billion and by 1956–57 to almost $38 billion. These welfare expenditures include social insurance, public aid, health and medical services, other welfare services, education and veteran programs. As a percentage of GNP these expenditures dropped from 11.5 percent in 1934–35 to 5.8 percent in 1945–46 and rose to 8.8 percent by 1956–57. The contribution of social insurance steadily increased.

As might be expected, public aid steadily declined, and largely because of the improvement of the economic situation, and in turn the burden on insurance increased. The proportion of GNP provided for health and medical services remained fairly stable, though there was a tendency to decline during the war and to rise after the war.

As might be expected, during the war the percentage of expenditures on education to GNP tended to decline, the total being 3.2 percent in 1934–35, 1.6 percent in 1944–45, and rose to 3 percent by 1956–57. Veterans' programs, as a percent of GNP, also tended to fall in the