
Deficit Spending
and the National Income

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FARRAR & RINEHART, INC.

Publishers

New York



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To

MY MOTHER AND FATHER

Preface

Among the remedies that have been advocated for the depression with which we have been struggling since 1929 none has received greater attention than deficit spending. The subject of this volume, therefore, requires no justification. In fact, present defense expenditure, which toward the end of 1940 brought a deficit in excess of the peak reached with the prepayment of the bonus in 1936, has given renewed importance to the discussion of the effects of deficit spending. It is my hope that this volume will contribute to the determination of these effects, as it attempts to make clear just what results are to be expected from deficit spending under various sets of circumstances, and so should aid in appraising the probable influence of current defense spending upon the American economy. Such an appraisal, however, is not undertaken in this volume; instead it is devoted to a discussion of the effects of deficit spending in the decade which began with the stock market crash in 1929 and ended with the first substantial repercussions of the European war upon the United States toward the end of 1939. By concluding the discussion¹ before defense spending became important the volume confines itself to a

¹ Statistical estimates, wherever possible, have been carried through the end of 1940.

period of prolonged stagnation. Such a period we shall probably not face again until the end of the present armament program; but there is every reason to believe that similar problems will arise at that time.

To appraise the effects of deficit spending during the last decade it has been necessary not only to measure the amount of the deficits statistically but also to discuss the theoretical work on the subject and to indicate the relationship of such work to business cycle theory as a whole. The preparation of the statistical estimates (without the aid of a research staff) has inevitably been time-consuming; as a result, in view of the extraordinary amount that has been written in recent years in regard to the multiplier and other concepts related to deficit spending, it has been necessary to consider only a part of the theoretical material available, so that the volume makes no pretense of covering all that has been written on the subject. For example, the excellent article of Professor Fritz Machlup² has not been commented upon because the conclusions of the relevant sections of this volume, which had been completed before the article appeared, are in almost complete agreement with those of Professor Machlup. The same is in the main true of the writings of Paul A. Samuelson.³ On the other hand, work which is found to be quite inadequate, such as the attempts that were made by Colin Clark⁴ and the Stones⁵ to obtain empirical measures of the multiplier, has been carefully criticized in the hope of preventing a repetition of the

² *Quarterly Journal of Economics*, November, 1939.

³ *American Economic Review*, Supplement, March, 1939; *Review of Economic Statistics*, May, 1939; *Journal of Political Economy*, December, 1939; and *American Economic Review*, September, 1940. The last article did not appear until after the completion of this volume during the summer of 1940.

⁴ *Economic Journal*, September, 1938, and June, 1939.

⁵ *Review of Economic Studies*, October, 1938.

errors involved. But even if all that has been written on the multiplier could not be covered, I believe that a representative selection of the writings on the subject has been presented and criticized, and that the summary of the theory of the multiplier, to be found toward the end of Part II, reflects the contributions of works not specifically discussed.

Part III contains estimates of the amount of federal and also state and local deficit spending in the last decade as well as the first presentation in detail of the methods by which such estimates can be made. For their indispensable help in connection with the calculation of the deficit spending of the federal government I am very grateful to Lauchlin Currie and Martin Krost.

Part I has benefited from the criticism of Professors Arthur W. Marget and Raymond J. Saulnier, while Professors Arthur D. Gayer and Robert M. Haig have made helpful suggestions at various points throughout the volume. But most of all I am indebted to Professor James W. Angell, who has given advice and counsel over the entire period during which this study was taking shape. To my wife I owe thanks for her aid both in reading the proofs and in preparing the index.

H. H. V.

Amherst, Massachusetts

April, 1941

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