

Public Finance and National Income

By

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**To the Memory of
LOUIS WARREN SOMERS**

Preface

This book represents an attempt to integrate into the subject matter of "Public Finance" some of the major developments in government policy, economic theory, and business-cycle analysis which have taken place during the last twenty years. It tries to cover the traditional ground—expenditures, taxation, borrowing, state and local finance, fiscal policy—but without emphasizing the purely administrative aspects. This thought underlies the entire book, from the first chapter on Importance of Government Finance to the concluding chapter on Fiscal Policy and Income Fluctuations. An example of the departure from the usual emphasis is in the treatment of property taxes. No attempt is made to provide a comprehensive treatment of the difficulties involved in the administration of the property tax. The relative importance of property taxes in the general tax picture is indicated in Chapter 7, a discussion of incidence and economic effects is contained in Chapter 15, and the significance of the property tax in the financial picture of state and local governments is considered in Chapters 20 and 21.

An effort is made to provide enough factual material to enable the reader to obtain an adequate perspective. Chapter 2 on Government Finance in the National Income considers the governmental segment of national income statistics. The first chapters in each of the parts on expenditures, taxation, and borrowing present statistical data. These chapters are Chapter 3 on Trends in Government Expenditures, Chapter 7 on Trends in Taxation, and Chapter 17 on Trends in Government Borrowing. The statistical data on state and local finance are given in Chapters 20 and 21. Descriptive material on various taxes is contained in the respective chapters.

Numerous gaps and inadequacies have appeared during the course of this attempt to write a comprehensive treatise on Public Finance from a modern point of view. As a result, exploratory work has been necessary on several topics. This is true particularly of Chapter 4 on Government Expenditures and Consumer Spending and Chapter 5 on

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Government Expenditures and Business Investment. Some of the material on the shifting of the tax on various types of income, including capital gains, is in the same category. The most extensive attempt along these lines is perhaps made in Chapter 23 on The Fiscal Impact on the National Income and Chapter 24 on Balanced and Unbalanced Budgets. Needless to say, numerous gaps and inadequacies still remain and the remedial attempts made in this book may have fallen far short of the mark. For such an old subject, "Public Finance" is still surprisingly young.

My greatest debt for a training in Public Finance proper is to Simeon E. Leland, formerly of the University of Chicago, with whom I have had the privilege of a close association both as a student and as a research assistant. His influence may be seen on every page of this book. For an invaluable introduction to Public Finance and, incidentally, to the subject of National Income, I am also deeply indebted to Donald C. MacGregor of the University of Toronto. My debt to those whose influence I have felt as a result of courses in economic theory and business-cycle analysis is too great to acknowledge other than by name: Irene M. Biss, Vincent W. Bladen, V. F. Coe, and A. F. Wynne Plumptre at the University of Toronto; Howard S. Ellis, William Fellner, Robert A. Gordon, Oscar Lange, Abba P. Lerner, and Leo Rogin at the University of California; and Frank H. Knight and Jacob Viner at the University of Chicago. In a less formal association I have been greatly influenced by my former colleagues at the University of Michigan, particularly Arthur Smithies. I also am glad of an opportunity to acknowledge my debt to the Social Science Research Council which enabled me to spend some time in New York, Cambridge, and Washington a few years ago and consult, all too briefly, with Edward Chamberlin, J. M. Clark, John Dunlop, Gottfried Haberler, Alvin Hansen, Seymour Harris, Simon Kuznets, F. C. Mills, W. C. Mitchell, Paul Samuelson, and Joseph Schumpeter. I have also benefited greatly from numerous discussions with my colleagues at the University of Buffalo, particularly Ralph C. Epstein, Claude E. Puffer, and John D. Sumner.

I am indebted to Malcolm M. Davisson and Earl Rolph of the University of California, who read some of the early pages and encouraged me greatly in the completion of the work. I am also indebted to Fritz Machlup of Johns Hopkins University, who read a large part of the manuscript in an editorial capacity and made many valuable suggestions. I am similarly indebted to William Hamovitch of the University of Buffalo, who read the chapters on taxation, and to Richard Schmidt also of the University of Buffalo who read the entire manuscript and helped put it through

the final stages of preparing it for publication. None of these should be considered responsible for the deficiencies of this book.

I wish to acknowledge the contribution of my secretary, Miss Mildred Phillips, who typed the major portion of the manuscript and exercised an inordinate degree of care throughout.

The editors of the *American Economic Review*, the *National Tax Journal*, and the *Canadian Journal of Economics and Political Science* have kindly consented to the use of some material of mine which had previously been published by them. Chapter 2 includes a note which appeared in the June 1939 issue of the *American Economic Review* and excerpts from book reviews in the September 1943 and September 1944 issues. Chapter 8 includes a note which appeared in the December 1938 issue. Chapter 12 reproduces an article which appeared in the September 1948 issue of the *National Tax Journal*. Chapter 23 and part of Chapter 24 are derived from an article in the August 1942 issue of the *Canadian Journal of Economics and Political Science*, published by the University of Toronto Press.

The writing of various stages of this book has extended over quite a number of years, some of which were broken up by travel. My wife has aided me in the preparation of the manuscript during this period. If it were not for her invaluable assistance under trying conditions this book could not have been written.

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