

Creation of Income by Taxation

JOSHUA C. HUBBARD
BRYN MAWR COLLEGE

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TO
M. B. H.

PREFACE

This book sets forth the income-creating power of taxation. The method of taxation will be seen to be preferable to continuous government deficit spending as a means of raising the level in income in an underemployment equilibrium. In many cases, if not most, the former is a more powerful instrument than the latter in creating income. In the long run the income created per dollar of tax outlay may be, and is likely to be, larger than that per dollar of government deficit plus interest. To be sure, this is true only after many income periods; but the method of taxation possesses additional advantages. It follows that government deficit spending should be an interim and temporary solution which precedes and helps to establish income creation by means of taxation.

These conclusions follow from the analysis, which is perhaps the only contribution of this essay. The analysis applies the multiplier technique to the theory of tax incidence. There is here little originality in either field separately. Nevertheless, as Professor Clark writes, "good, fresh answers do not have to wait for the discovery of some mysterious and hitherto unknown device or principle. They are generally reworkings and recombinations of material that is not wholly new." (John M. Clark, *Demobilization of Wartime Economic Controls*, p. 203.)

Being a combination of the multiplier technique and the theory of tax incidence, this essay is on a high level of abstraction. In my opinion, however, the conclusions which follow from this approach justify the necessary effort. Income creation by means of taxation provides the missing instrument in an inclusive general policy, the purpose of which is to meet not only the problems of cyclical fluctuations but also the problems of secular stagnation.

I wish to express my deep gratitude to those who took time out of their already crowded lives to criticize my work, for it is through criticism that one progresses. Professor Arthur E. Mon-

roe in editing my article in the *Quarterly Journal of Economics*, from which this book developed, made many stimulating suggestions. Professor Seymour E. Harris has my lasting gratitude for urging me into additional effort and for many helpful criticisms of the final draft. I am also grateful to Professor W. Rupert Maclaurin, an old friend and classmate, for reading an early draft of the manuscript and for suggesting many helpful changes in its form and organization. Particular thanks go to many Bryn Mawr students too numerous to mention for devoting much of their free time for the past six years to the preparation of the manuscript. It is the better as the result of their many helpful suggestions.

Some of the analysis in Chapters III, IV, and VII has been combined into an article which appeared in the *Economic Journal*, March 1949. This article omits one whole aspect of the problem and serves only as an introduction. I am also indebted to Professor R. F. Harrod for helpful suggestions in the preparation of this article. In conclusion, I wish to thank especially Miss Mary L. Terrien for her careful and skillful reading of the proofs. I am, of course, responsible for all remaining errors.

J. C. H.

BRYN MAWR, PENNSYLVANIA

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CONTENTS

I	INTRODUCTION	1
	The omissions of the classicists. Prolonged depression. General statement of income creation by means of taxation.	
II	THE RESULTS OF TAXING AND SPENDING THE RECEIPTS	8
	The sources of tax payment. The impact of taxation upon investment. General taxation on consumption. Property taxes. Income taxes. Expenditure of receipts to expand private investment. Some examples. APPENDIX: The impact of the personal income tax upon individual saving and investment out of income.	
III	INCOME CREATION BY MEANS OF TAXATION	38
	The assumptions. The variables. The average propensity of individuals to consume. Taxation and the consumption function. Formulas for initial income increment. APPENDIX A: Diagrammatic proof of initial income increment. APPENDIX B: The impact of the proportional income tax upon investment in terms of a diagram.	
IV	THE METHOD, THE MULTIPLIER, AND THE MARGINAL EFFICIENCY OF CAPITAL	62
	Income creation. The simple multiplier. The complex multiplier. Formulation of the method of tax-	

ation. The case of inelasticity. Elasticity greater than unity. The formulation of the elastic case. APPENDIX A: Two approaches. APPENDIX B: The schedule of the marginal efficiency of capital in a modern economy.

- V BROADENING THE SCOPE** 92
- The supply schedule with a positive slope. The personal proportional income tax which corporations ignore. Consumption taxes. Income creation and tax capitalization. Progressive taxation. The first case. Property and corporate income taxes. Introduction to the scope of income creation by taxation. APPENDIX: The second and third cases.
- VI APPROACHING REALITY** 126
- Stable selling prices. Stable prices of the agents of production. Monopolistic competition. The short run. The acceleration principle. The schedule of the marginal efficiency of capital through time. The foreign balance of payments.
- VII A COMPARISON OF POLICIES** 147
- The bases for comparison. The problem of administration. Opposition to the policy. The short-run problem. The long-run problem. A comparison of the policies in the long run. Taxation versus deficit spending.
- VIII AN OVER-ALL POLICY** 170
- The need for an over-all policy. A reasonable objective. Policy for the minor cycles. Policy for the major cycle and the long run. A rising income. The trend in the tax outlay.
- IX CERTAIN MAXIMS OF PUBLIC FINANCE** 188
- Neutrality in the government's budget. A balanced normal budget and progressive taxation. Prevent-

CONTENTS

xi

ing war inflation by taxation. Government borrowing for capital formation. Government deficit spending.

REFERENCES	212
BIBLIOGRAPHY	225
INDEX	237