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Summary of Findings

Because of changes produced by the two world wars and the Korean conflict, federal receipts, expenditures, and net surplus are analyzed in five separate time periods: (1) the ten business cycles from 1879 to 1914; (2) the four cycles of the interwar period, 1921 to 1938; (3) the three war cycles, 1914-1919, 1938-1945, and 1949-1954; (4) the two postwar cycles, 1919-1921 and 1945-1949; and (5) the most recent cycle, 1954-1958. Since the cyclical behavior of the series was substantially similar in periods (1), (2) and (5), we summarize our findings for these periods first, then deal separately with the war and postwar cycles.

Peacetime Business Cycles: 1879-1914, 1921-1938, 1954-1958

1. Unbalanced budgets have been a part of our fiscal history at least as far back as 1879. As a rule, we have had cash surpluses in times of prosperity and cash deficits in times of depression. The rise in the net surplus during business expansions and its decline during contractions have been due primarily to the cyclical rise and fall of revenues rather than to countercyclical changes in expenditures.

2. Adoption of the income tax materially increased the magnitude of the cyclical swing from surplus to deficit and back again. Before the income tax was adopted, variations in customs revenues due to changes in the volume of imports were primarily responsible for the cyclical swings in the net surplus. Government revenues have tended, therefore, to serve as a built-in stabilizing influence during most peacetime business cycles since 1879; such a consistent record is well worth recognizing in any evaluation of built-in stabilizers as countercyclical devices. This record was not the result of a positive policy on the part of the government but came about primarily because the revenue base (personal incomes, corporate profits, imports, and—more recently—expenditures on items on which excise taxes

Summary of Findings

are levied) expanded and contracted with the business cycle. Indeed, until the 1930's, tax rates and tariffs, more often than not, were lowered during prosperity and raised during depression.

3. Federal government expenditures have not conformed systematically to most peacetime business cycles. Expenditures have typically risen during recession and recovery alike.

War Cycles: 1914-1919, 1938-1945, 1949-1954

1. Each of these periods of defense mobilization and war participation was characterized by an extended period of business expansion and prosperity, followed by a brief period of business contraction. In each case, the federal surplus or deficit moved in opposite fashion to its usual peacetime pattern. The surplus declined (or the deficit rose) during the period of business expansion, and moved back toward a surplus during the subsequent business contraction.

2. Revenues rose enormously during the expansion phases, and fell moderately during the contractions (except in 1918-1919). Although these movements are not unlike those of peacetime business cycles, they are attributable to a far greater extent to changes in tax legislation. Income taxes played a dominant role. Miscellaneous internal revenues moved in a manner similar to income taxes, but with smaller relative swings. Customs receipts reversed their usual peacetime course during the two world war cycles because of special factors affecting the volume of dutiable imports. These did not apply during the Korean War, and the customary peacetime pattern prevailed.

3. Federal expenditures rose and fell with the business cycle and were, of course, a dominant factor in the expansion and contraction of business activity.

Postwar Cycles: 1919-1921 and 1945-1949

1. The surplus-deficit series displayed positive conformity to both the postwar cycles, resembling the pattern of other peacetime cycles. However, the source of this conformity was quite different. In the postwar cycles it was attributable as much to the inverted conformity of expenditures as to the positive conformity of revenues, whereas in other peacetime cycles the positive conformity of revenues has been the dominant factor. The sharp decline in expenditures at the termination of each war carried over into the periods of business expansion (1919-1920 and 1945-1948), while the subsequent contractions (1920-1921 and 1948-1949) occurred at about the time that expenditures stabilized or began to rise again—hence the inverted patterns of expenditures. Revenues remained roughly stable during the business expansions but declined during the contractions, thereby exhibiting a mild degree of positive conformity.

CHART 1
Federal Receipts and Expenditures, Monthly, 1879-1958

