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of the Currency, Donald S. Thompson, Chief, Division of Research and Statistics, Federal Deposit Insurance Corporation, and Harry D. White, Director, Division of Monetary Research, United States Treasury, described the research activities of federal banking and monetary agencies.

Fiscal Policy

BEFORE THE first World War fiscal policy was a field of research cultivated by a few specialists, attracting slight attention from the public at large. Public financial activities were on such a modest scale that proposals for research in fiscal policy seemed of secondary interest. Some thirty years ago merely a small fraction of the national income of the United States—perhaps 5 to 8 per cent—passed through government accounts, that is, was paid into the public treasuries in the form of taxes and duties, and paid out again by government for services, benefits, and contributions.

Today the situation is different indeed. Even before the current defense effort, between a quarter and a third of the national income was passing through various governmental agencies. As the crisis grows more tense from day to day and the possibility of active participation in war becomes more immediate, that proportion is rising sharply.

The expansion of federal expenditures, revenues, and debt accompanying this increased flow of the national income through public budgets is affecting the economy in a multiplicity of ways. It is altering the distribution of the national income, influencing greatly the amount of individual and corporate savings, subjecting both the formation of capital and the direction of investment to a variety of obstacles and controls. The banking system is becoming more and more dependent upon government securities and credit as an increasing proportion of the federal debt finds its way into the portfolios of commer-

cial banks; the concepts of bank credit and capital are becoming confused, and monetary policy is conditioned more and more by public financing. In short, the structure of our economy at large, the development and growth of private enterprise in particular, is undergoing changes that may be traced to the greatly expanded role of government in finance.

On these counts, then, fiscal policy must be ranked high among the crucial economic issues of our day. But there is yet another compelling reason why it demands thorough research. Numerous governmental actions with respect to taxation, expenditures, and public debt are fashioned to an important degree by a conscious intent to influence some features, if not the basic structure, of the national economy. It may be contended, of course, that even in earlier years certain ostensibly financial operations of government, for example, tariffs, public works, and industrial tax remission or local public works, were undertaken for similar purposes. However, the role of fiscal policy thirty years ago was insignificant in comparison with its present prominence, and its rise has been without benefit of long experience, or of widely accepted theoretical analysis.

THE EXPLORATORY COMMITTEE

Our activity in this field dates from the summer of 1937. As recounted more fully in earlier reports, the National Bureau, on the recommendation of the Universities-National Bureau Committee, appointed an Exploratory Committee on Research in Fiscal Policy* to state the outstanding issues and assess

* W. L. Crum, Chairman (Harvard University); Roy Blough (Director, Division of Tax Research, U. S. Treasury); James C. Bonbright (Columbia University); W. Randolph Burgess (National City Bank of New York); W. J. Carson; Lewis W. Douglas (Mutual Life Insurance Company); Harold M. Groves (University of Wisconsin); Robert M. Haig (Columbia University); A. H. Hansen (Harvard University); Clarence Heer (University of North Carolina); Roswell C. Magill (Columbia University); A. W. Marget (University

the feasibility of coordinated effort by men of diverse experience and viewpoint.

Deciding that the field must be defined broadly to cover official actions and policies with reference to taxation, expenditures, and debt at all levels of government—federal, state, and local—the Committee yet believed that all investigations should point toward one question: How does fiscal policy affect the structure and condition of the national economy?

Examination of the foreign and American literature indicated that what had so far been done, competent and elaborate though some of the publications were, was inadequate. Hence the Committee concluded that prompt and thorough research was needed in the field as a whole and in most of its main segments.

Greatly to its encouragement, the Committee found a disposition throughout large sections of the community to participate in, and to provide support for, such a program as it envisaged. This open-minded attitude characterizes practically all groups concerned with fiscal policy, divided as they otherwise are by conflicting interests and by disagreement concerning what should be done. Indeed, it is from the very existence of these conflicts and controversies that the desire for a more basic and disinterested approach arises; for they indicate the extraordinary confusion that pervades public thinking on matters of fiscal policy today—a confusion likely to persist until the entire subject is clarified by impartial study.

CONFERENCE ON RESEARCH IN FISCAL POLICY

To effect its plans, the Exploratory Committee recommended that the National Bureau set up a Conference on Research in (of Minnesota); George O. May; D. T. Smith (Harvard University); Jacob Viner (University of Chicago); R. B. Warren (Institute for Advanced Study); John H. Williams (Harvard University and Federal Reserve Bank of New York).

Fiscal Policy. Two projects have been started and several others planned, to be undertaken as soon as means can be obtained.

Taxable and Business Income

The first, a factual and theoretical examination of the difference between income as calculated for business and tax purposes, was outlined by a committee under D. T. Smith: Roswell C. Magill, George O. May, and W. A. Paton (University of Michigan). The directing committee, made up of Mr. Smith (Chairman), Mr. May (Adviser), Bishop Hunt, and Randolph Paul (Lord, Day and Lord), is participating actively in the research. Through the cooperation of the United States Treasury Department and the Securities and Exchange Commission the taxable income of business concerns as well as their income determined for other purposes can be studied, though the identity of the concerns is concealed.

The aim is to lay the foundation essential for building public policy with respect to the taxation of business and also for subsequent studies of federal and state income taxation policies. The revenue from and the burden of taxation upon business and individuals depend in large measure upon the legal definition of taxable income. With tax rates as high as they are now and are certain long to remain, the significance of changes in the definition of income is greatly augmented. If a tax structure is to be framed wisely, it must be founded upon clear knowledge of all differences between income as defined for ordinary and for tax purposes.

The Federal Debt: Its Management and Financing

In December 1939 John H. Williams, W. Randolph Burgess, and H. V. Roelse (Federal Reserve Bank of New York) laid out a project on the federal public debt, with particular emphasis upon its relation to the banking system. Revised in

the light of the defense program by this committee, with the addition of W. J. Carson, and with the collaboration of other specialists, it will deal with the relation of federal public borrowing to commercial and central banking, and such related topics as the flotation and management of government securities and their distribution among different types of holders.

Defense Financing

In view of the need for research on certain major aspects of government financing for the defense program, the Conference has outlined a study that can be begun promptly and completed in perhaps six to nine months. Although covering some points that would otherwise be taken up systematically under the preceding project, it will stress in particular problems that are especially pressing. The Conference hopes that the general project on the federal debt can be commenced promptly after the completion of this special project; it believes, however, that the latter can be carried through advantageously as an independent survey.

Effects of Federal Taxation on Policies of Business Management

Another project the Conference feels should be launched immediately, perhaps rivaling in priority that on the federal debt, concerns the effects of federal taxation upon the policies of business management. Many beliefs concerning these effects are ill founded, and individuals have conflicting opinions simply because each is acquainted with only one or two of the many factors that must be weighed.

Certain features of our tax system have aimed at goals other than the mere raising of revenue. They have been meant to stimulate or restrict certain types of activity, or to influence operations in certain fields, as in forestry and mining. If we knew to what degree the desired effects have been achieved

we would have a valuable guide to further changes in the tax system. Our tax laws are still to be considered primarily as revenue measures, however, and defense needs will undoubtedly shift the emphasis further toward the production of revenue. Many effects of taxation on business are incidental; many are even unrecognized by those responsible for drafting tax laws. Research is required to bring out the issues involved, and to help policy-makers meet them.

Even in peace time, the share of earnings taken by taxes has become so great that private business policy can be adjusted properly only after appraisal of the effects of existing taxes and careful consideration of proposals concerning them. Any scientific approach will inevitably come up against serious obstacles, for it is always difficult to discover how, in fact, the policies of private business take shape.

Income-Creating Effects of Federal Financing

A fifth major project concerns the so-called income-creating effects of federal government financing. So much has been written about them that the Conference holds the initial task to be a critical survey of the documents and viewpoints, in order to clear away differences in concepts, interpretation, and theoretical treatments. Accordingly, the Conference has called a special meeting of its members, representatives of the Conference on Research in Income and Wealth, and other guests. Sumner Slichter (Harvard University) will preside; papers will be read by Emile Despres (Board of Governors of the Federal Reserve System); Arthur D. Gayer (Queens College) with the collaboration of W. W. Rostow (Columbia University); Martin Krost (Board of Governors of the Federal Reserve System); John K. Langum (University of California); A. W. Marget; and Henry H. Villard (Amherst College).

Unit Studies

Early in 1940 the Conference formulated six unit studies that can be started at short notice and carried out by a specialist, assisted perhaps by a small research staff, in consultation with Conference members. Each is focused on a specific question or group of questions implicit in or supplementary to one of the major projects: *Revision and Integration of the Tax System, 1920-40*—an historical study of two decades of tax legislation and experience, with emphasis on the issues involved in, and the attempts to achieve, integration; *Federal Grants-in-Aid in Massachusetts, New Hampshire, Wisconsin, Indiana, and Iowa*; *Public Investment, 1930-40*; *Taxes on Excess and War Profits*—the second Revenue Act of 1940 in the light of American experience during and after the 1914-18 war and in comparison with experience in certain other countries; *Flexible Taxes*—an examination of the theoretical arguments advanced concerning the adaptation of taxes to cyclical fluctuations in business and especially to such an artificial and perhaps inflationary boom as may accompany the defense effort, with emphasis upon the practical implications of policy from the viewpoints of public revenue and of business operation; *The Effective Yield of Bonds*—the effect of progressive income tax rates upon the realized interest from securities that are taxable or not wholly tax exempt.

The members of the Conference are aware that this program will require several years of painstaking organization and laborious research. The current situation may create new demands upon the Conference or suggest new content or emphasis and there can be no doubt that in the ensuing peace, attention will be drawn to matters that might not have been considered crucial even as late as 1939. The Conference will be guided always by a single long-run objective: to make a

thorough study of all aspects of fiscal policy and their effects upon the economy, whether in war or in peace.

The Executive Committee of the Conference consists of W. L. Crum, Chairman; Roy Blough, A. H. Hansen, Jacob Viner, and R. B. Warren.

Carnegie Associates

ONCE AGAIN this year the Carnegie Corporation has granted us stipends for five Research Associates: W. Braddock Hickman from Princeton University; R. W. Jastram, Stanford; E. E. Lewis, Howard; Horst Mendershausen, Colorado College; and Lorie Tarshis, Tufts College. Their work is described under the unit with which each is collaborating: finance, prices, business cycles, income, and wages.

'Hillside'

'HILLSIDE' has become a busy center for experiment and training in economic research. The Financial Research Program is centered there, some twenty-five staff workers using its facilities daily. It serves also as a residence for several of our staff, visiting scholars on leave from their universities, young economists holding research fellowships, and out-of-town conferees. Conferences and committee meetings are going on much of the time in connection with the financial studies and other undertakings in which governmental agencies, universities, banks, business enterprises, and research agencies are associated with us. Now and then an organization such as the Twentieth Century Fund or League for Industrial Democracy takes groups of their members to 'Hillside.'

Last year it was the locus of two innovations. The National Bureau's Board of Directors held two week-end sessions—one in May and a second in October—during which