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WILLIAM LEONARD CRUM

JOHN F. FENNELLY

LAWRENCE HOWARD SELTZER

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A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each subject to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the report and manuscript, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed shall have approved.

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A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every National Bureau book.

*(Resolution adopted October 25, 1926, and revised
February 6, 1933 and February 24, 1941)*

The Conference on Research in Fiscal Policy

Fiscal Planning for Total War is the first book published under the auspices of the Conference on Research in Fiscal Policy. The Conference is successor to a special committee, created in 1937 by the National Bureau of Economic Research to survey the leading issues in the field of fiscal policy and plan research projects pertinent to those issues. The committee recognized that fiscal policy, because of the vast scale of public financial operations and their ramifying effects not only upon banking and monetary conditions but upon nearly all aspects of the nation's economic life, presents in many respects the central economic problem of our time. The committee, and subsequently the Conference, planned several research projects in order to extend knowledge of the troublesome questions involved in fiscal policy, and work had already been started on certain of these projects before the United States launched its defense program in the summer of 1940. Presently thereafter the Conference laid its plans for a study of war finance; and, because this topic had become more pressing than any other item in its research program, devoted a large part of its immediate energies and resources to the study. When active work on the study was initiated, the Conference included the following members:

W. L. Crum, Harvard University, *Chairman*

Roy Blough, Division of Tax Research, Treasury Department

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- W. Randolph Burgess, National City Bank of New York
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George O. May, Price, Waterhouse and Company
Dan T. Smith, Harvard University
Jacob Viner, University of Chicago
Robert B. Warren, Institute for Advanced Study
J. H. Williams, Federal Reserve Bank of New York and
Harvard University

Preface

DEVELOPMENT and maintenance of the sinews of war—the men, materials, and machines essential for combat—enormously aggravate the financial tasks of a modern government. The most obvious task is the supply of money to the Treasury on a scale vastly greater than that required by any peacetime emergency or even by any previous war. But the more vital tasks do not consist in the mere furnishing of public money; they comprise rather the planning and conduct of public financial operations with a view to attaining, so far as wise financing can assist in that direction, the immediate objective of winning the war and the more remote objectives for which the war is being fought. Accordingly, a wise financial program must aid in bringing about the fullest possible use of the nation's productive resources, and the fullest possible diversion of those resources to military use. It must also seek to distribute the sacrifices of war among citizens according to publicly accepted ideas of fairness, and to leave as little disorder as possible in the economic structure of a nation which must face difficult postwar responsibilities of promoting the welfare of its own citizens, ensuring its defense, and contributing to the maintenance of peace. Some of these objectives are not peculiar to war finance, and are or should be guides to peacetime financial policy. But the new and special objectives of wartime and the changed emphasis on old objectives, together with the altogether exceptional scale of financial operations, render the problems of war finance more intricate and pressing than those ever encountered in peace.

War finance, like all aspects of the war effort, must be planned and managed with an awareness of the huge scale, the impelling urgency, and the baffling intricacy of the job to be done. The successful handling of this job requires not only a full understanding of the teachings from peacetime experience and study, but also an imagination capable of visualizing bold innovations and of applying methods untried in peace or peacetime methods with a vigor unknown in peace. That such a challenging and difficult subject would engage the attention of numerous groups and individuals could not be doubted, and the Conference on Research in Fiscal Policy was aware that many minds would be struggling with the questions of war finance. But the questions are so perplexing and touch so closely the welfare of the nation that all possible light should be thrown upon them, and the Conference therefore prepared late in 1940 its plan for a study of war finance. Early in 1941 the National Bureau of Economic Research, sponsor of the Conference, sought and secured from the Carnegie Corporation a grant for financing the study. The Conference placed the study in charge of a Directing Committee including W. L. Crum of Harvard University, Chairman of the Conference, John F. Fennelly of Gloré, Forgan and Company, Lawrence H. Seltzer of Wayne University, and (until he resigned, upon assuming active duty at the Treasury) Jacob Viner of the University of Chicago. This Committee brought together a staff of specialists with varying points of view and backgrounds of training and experience, and active work on the study began in the summer of 1941.

The present book reports the results of the labors of the Committee and its staff and numerous consultants who contributed generously and thoughtfully to the work in its various stages. The three authors, members of the Directing Committee, are solely responsible for the book as it appears, and whatever defects it may have. The work of their staff associates and consultants contributed enormously to the

handling of the study and to the final results appearing in the book; but decisions as to what should appear and how it should be stated were made solely by the undersigned members of the Directing Committee, and they must and do assume all the responsibilities of authorship.

The active staff included, in addition to the Directing Committee: Charles C. Abbott of Harvard University, Reynold E. Carlson of Johns Hopkins University, Pearce Davis of Hunter College, Gabriel S. Hauge of Princeton University, F. Leslie Hayford of the General Motors Corporation, M. Slade Kendrick of Cornell University, John Lintner, of Harvard University, James A. Maxwell of Clark University, Eugene E. Oakes of Yale University, Kenyon E. Poole of Brown University, and Harold F. Williamson of Yale University. Walter Lichtenstein of the First National Bank of Chicago, Arthur W. Marget of the University of Minnesota, Paul M. Sweezy of Harvard University, and Leo Wolman of Columbia University served as special collaborators.

The roster of consultants included, in addition to those members of the Conference and Directors of the National Bureau who took a specially active interest in the study: James W. Angell of Columbia University, George E. Bates of Harvard University, Louis H. Bean of the Department of Agriculture, William A. Berridge of the Metropolitan Life Insurance Company, Harold H. Burbank of Harvard University, Henry A. E. Chandler of the Guaranty Trust Company, Lauchlin Currie of the Executive Offices of the President, James H. Douglas, Jr., of Gardner, Carton and Douglas. J. Franklin Ebersole of Harvard University, Grover Wm. Ensley of the Bureau of the Budget, Mordecai Ezekiel of the Department of Agriculture, Milton Gilbert of the Department of Commerce, Richard V. Gilbert of the Office of Price Administration, R. W. Goldsmith of the Securities and Exchange Commission, Gottfried Haberler of Harvard University, Bernard F. Haley of Stanford University, Charles O. Hardy of the Brookings Institution, Seymour E. Harris

of Harvard University, A. G. Hart of Iowa State College, Henry R. Hayes of New York City, Arthur B. Hersey of the Board of Governors of the Federal Reserve System, Joseph B. Hubbard of Harvard University, Neil Jacoby of the University of Chicago, George Jaszi of the Board of Governors of the Federal Reserve System, Simon Kuznets of the University of Pennsylvania, Harley Lutz of Princeton University, Lloyd Metzler of Harvard University, Randolph Paul of the Treasury, Delmont Pfeffer of the National City Bank of New York, J. H. Riddle of the Bankers Trust Company, George B. Roberts of the National City Bank of New York, Harold V. Roelse of the Federal Reserve Bank of New York, Carl Shoup of Columbia University, Sumner Slichter of Harvard University, T. R. Snavely of the University of Virginia, H. Dudley Swim of the National Investors Corporation, John P. Young of Occidental College, Frederic T. Wood of the Fifth Avenue Coach Company.

Some of the consultants participated in staff discussions or other discussion meetings during the investigation, some talked over special aspects of the work in interviews with one or more members of the active staff, and some submitted written criticisms and suggestions touching various portions of manuscript in its successive stages. All these consultants gave generously of their time and thought; and the Directing Committee is aware that the final content of the book was greatly improved by their contributions.

The Committee is deeply grateful for these contributions, and for the faithful and painstaking labors of its staff associates. The Committee also records its appreciation of the insight and care shown by Martha Anderson in preparing the final manuscript and seeing the book through the press, and of the cordial collaboration of H. Irving Forman who made the charts.

The funds which made the entire study possible were supplied mainly through a grant by the Carnegie Corporation of New York. That Corporation is not, however, the

author, owner, publisher, or proprietor of this publication, and is not to be understood as approving by virtue of its grant any of the statements made or views expressed therein.

An analysis of war finance must start with an examination of the task to be performed, with emphasis not merely upon the sheer magnitude of that task but also upon the circumstances which distinguish it from the corresponding task in peacetime. The task of government finance in war differs from that in peace not only because it runs to a vastly greater magnitude in terms of dollars, but also because it must aim at certain objectives which are absent or relatively unimportant in peace and must face dangers and difficulties peculiar to or peculiarly acute in war conditions. With the task of war finance defined and described, and with due allowance made for the bearing of direct controls, the analysis can proceed to questions of ways and means. A survey can be developed of various financial devices available, and attention can be directed to the perplexing question of how these devices can be combined into a war finance program.

Description of the task to be accomplished by war finance lends itself in large measure to the use of those materials and those procedures in summarization and interpretation which are generally recognized as scientific. Room for the play of opinion, whether based upon prejudice or derived by a sincere effort to reach a balanced judgment in the absence of complete and conclusive evidence, is relatively small. The role of straight scientific analysis is somewhat less pronounced in the study of direct controls, mainly because experience with such methods is so limited that factual evidence as to their operation furnishes no sure guide to the investigator. The situation is also less favorable, from the point of view of science, with respect to financial ways and means. Especially in the case of those ways and means, mainly taxes, in which compulsion is a dominant element, many of the issues involved do not admit of scientific treat-

ment. Questions concerning the motives, the interests, the prejudices, and the responses of citizens, as individuals and through their institutions, assume large importance to the framers of tax policy. Some scientific analysis on certain of these points is without doubt feasible; but a large area of doubt remains in which scientific knowledge based upon established facts must be supplemented by opinion. On the economic effects and certain other aspects of taxation, much more can be accomplished by scientific study; but even here precise and conclusive findings are ordinarily impossible, largely because of the interrelations between economic and emotional or psychological factors. Scientific analysis can assuredly make some contribution to the framing of tax policy, but it cannot presume to answer all the questions involved. Some of those questions must be left for decision by the legislative machinery which, by a balancing process, translates the conflicting opinions of citizens into some compromise acceptable as a rule of action.

The examination herein rests largely upon factual material already made public. The basic data are mainly from official sources, and relate to various aspects of national output and income distribution and to fundamental economic organization and activities. These data, while pertinent to recent conditions, are in the main inevitably historical rather than current. In order to secure corresponding up-to-date figures we have been obliged to derive certain estimates in the light of the historical record. Moreover, as a financial program looks to the future rather than the immediate present, we have been obliged to project these estimates beyond the present. In making the estimates of the current situation and the forecasts of the near-term future, we have sought to use the most dependable methods and to base their application on the best available records of the past. The estimating and forecasting procedures used, while intended to be technically sound and as free as possible from bias, are necessarily imperfect; and we have in fact not at-

tempted to use as elaborate procedures as might be adopted by investigators possessing more resources or having a longer time at their disposal. The basic historical data are regarded as in the main dependable, and the estimates and forecasts are believed to be sufficiently accurate for the kind of analysis here attempted.

In some respects, statistical evidence concerning the operation of certain kinds of taxes is abundant, as a result of tabulations compiled as an incident to administration of such taxes in use heretofore. So far as this evidence can furnish a useful guide under conditions wherein tax burdens must be vastly increased, we have sought to make use of it; and we have likewise relied upon generally accepted economic theory and known characteristics of economic and business organization and operation in discussing the probable economic effects of various types of taxes. The same remarks, with some reservations, can be made about evidence concerning the economic effects and other aspects of borrowing.

We recognize, however, that the fullest possible reliance upon factual evidence and scientific analysis yields no answers or only partial answers to various questions of financial policy: even with the fullest use of what statistical and economic analysis can teach, the formulation of financial policy must be worked out in the light of certain other limitations. In the main such limitations appear in connection with those elements of financial policy, chiefly taxes, which involve compulsion.

One category of limitations upon taxation or compulsory action in borrowing covers all those resistances, to the imposition of specific burdens, which reflect purely private interests—of groups of citizens or enterprises, and also of legislators and other government officials responsible for financial policy. To call these interests 'purely private' is to risk over-simplification, for in many cases the public interest is also involved, through the play of private incentives or

through other ties between private and public interests. Nevertheless, the essential feature of cases in this category is the presence of private interests, and partly if not mainly selfish motives, which can and do exert political pressures effectively limiting the possibilities. In view of these limitations on the choice of a financial program, the development and adoption of such a program involves a long list of policy decisions and a political balancing of conflicting considerations and interests. The authors of this book are fully aware that many of these questions do not admit of scientific answers, and the book makes no pretense of giving or suggesting such answers.

The existence of political factors, and their possibly powerful influence in limiting financial policy, must be recognized; and the factors can helpfully be described here in broad outlines. A basic truth, which is highly important though so commonplace as to be trite, is that practically no citizen or private organization welcomes a tax burden or compulsory purchase of bonds. Even at a time when patriotism is a more than usually powerful motive and when the need for adding to the *total* tax burden of the nation is widely recognized, particular citizens and enterprises are likely to regard burdens proposed to be imposed upon them as unnecessary or at least unduly severe. This attitude is reflected in resistance, often skillfully organized on a group basis, to any specific new proposal affecting a limited class or group of citizens or enterprises. Such resistance, even in cases in which it springs from the clearly selfish motive of avoiding a share of the total burden which must be borne by the entire community, is often marked by the contention that imposing the proposed burden upon the particular class or group is contrary to the public interest; for example, that it would damage the war effort. And in numerous cases the motive is not purely selfish, and the contention concerning the public interest has some and perhaps clear validity. And even when the motive is purely selfish, the practical im-

plications as to damage to the public interest may be just as real: the public interest frequently must be protected or promoted by recognition of and appeal to purely selfish motives.

In many instances, the motive for resistance does not spring from a desire to avoid a share of the general burden, but merely from a desire to avoid what is sincerely regarded as an undue or unfair share. In all such instances—and they are perhaps more numerous than the instances of purely selfish motive, in a time of high patriotism—the baffling question of what is a fair share arises. The answer unfortunately cannot be found by an abstractly scientific study of facts, but takes different forms in different minds according to a wide range of prejudices and opinions which have grown up within those minds or have been instilled in those minds from without. To recognize that opinions as to what is fair rest upon such complicated and mainly unscientific foundations does not imply that such opinions can be brushed aside in formulating practical financial policies. On the contrary, such opinions, however vaguely defined and illogically established, are among the most powerful forces limiting public financial action.

Resistances of this sort, reflecting in varying degree the response of private interests to proposed changes, affect the policy decisions of legislators and of elected administrative officials and their subordinates. To raise questions whether the response by government to these resistances reflects a faithfulness to expressed or implied promises which helped win previous elections, or a desire to win votes in the future, or a settled conviction that government must temper its independent judgment of the public interest by a recognition of the wishes and views of its constituents, is to miss the chiefly significant point. That point is that, in a representative form of government, the wishes and views of various groups of citizens are brought together in a balancing process out of which actual governmental policy develops. We say

again that a book like the present cannot offer a scientific guide to decisions on these political questions, and the authors do not feel called upon to state herein whatever opinions on these questions they as citizens hold.

W. L. C.

J. F. F.

L. H. S.

August 1942

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