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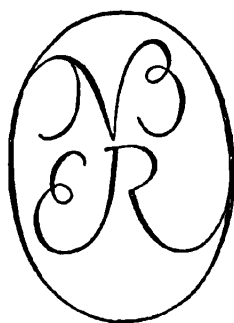
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# Federal Receipts and Expenditures During Business Cycles, 1879-1958

JOHN M. FIRESTONE

THE CITY COLLEGE  
OF NEW YORK



A STUDY BY THE  
NATIONAL BUREAU OF ECONOMIC RESEARCH



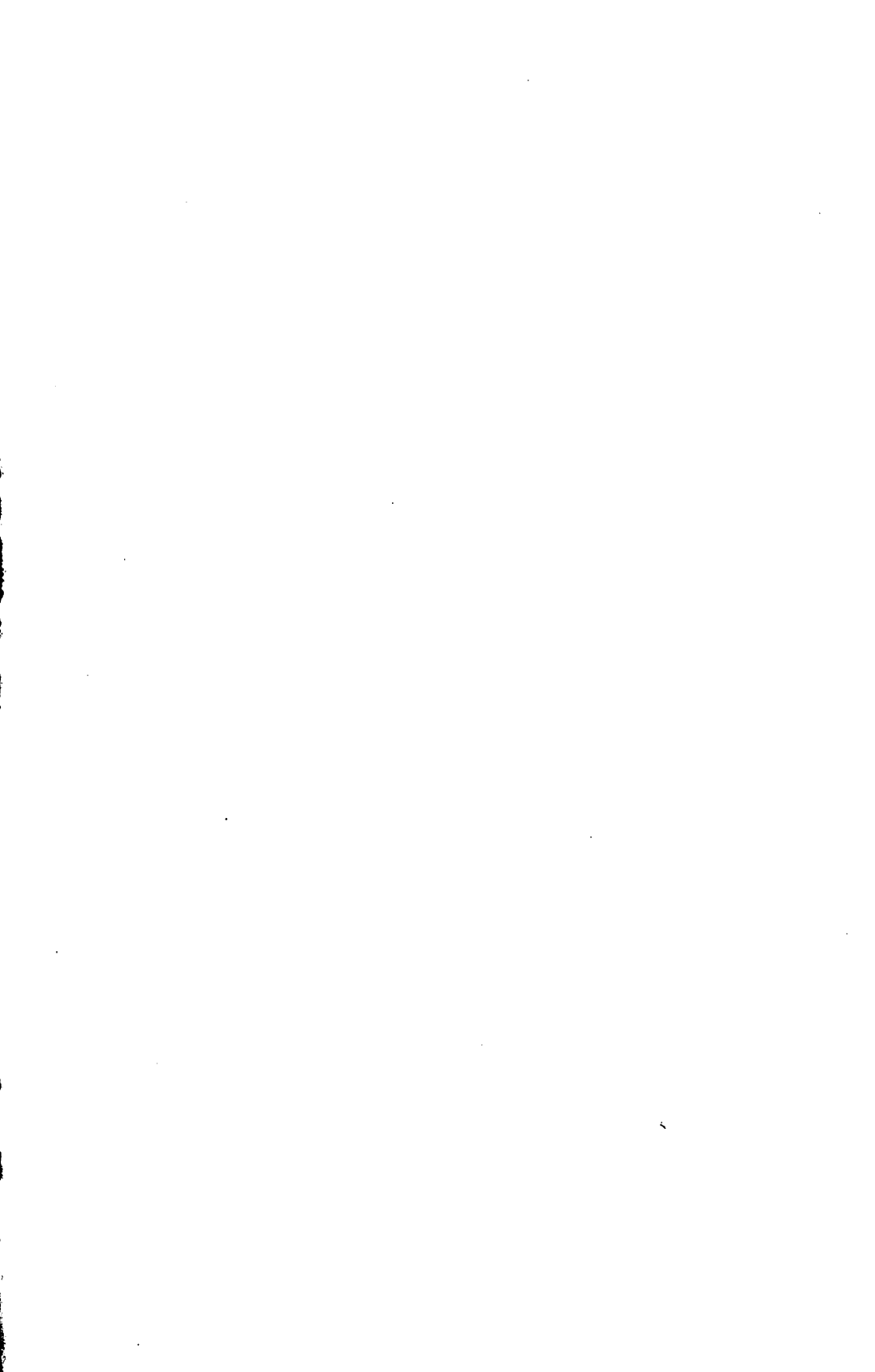
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Federal Receipts and Expenditures  
During Business Cycles, 1879-1958

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

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## Foreword

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Despite the continuing interest economists have had in the behavior of the revenue collections and expenditures of the federal government during business cycles, the present study by John M. Firestone seems to have been the first to subject the lengthy monthly record of these magnitudes to analysis from this point of view. And despite the fact that the sources of revenue and the objects of expenditure have altered drastically over the years, while federal fiscal operations have become vastly more important in the economy, Firestone finds a surprisingly persistent pattern of behavior. The pattern has been interrupted by wars, but restored within a few years after each war.

This result adds pungency to what might otherwise be a drab historical review. Persistent facts must be reckoned with. One such fact, developed in Firestone's account, is that business cycles have consistently upset the budgetary balance, tending to create surpluses in prosperity and deficits in depression. A second fact is that the cyclical shift from surplus toward deficit and back has been, throughout the period since 1879 (with the exception of war and immediate postwar years), due almost entirely to the behavior of revenues rather than expenditures, and to "automatic" changes in the size of the tax base rather than to deliberate changes in tax rates. A third fact is that, whereas in earlier times the cyclical swing in revenues probably had little effect on business cycles, nowadays it can be counted as one of the more important influences. Not only have the magnitudes involved become much larger relative to variations in national income, but the prime source of the swing in revenues—formerly the customs receipts, but now the income tax—now exercises a much more potent effect.

On the whole, these facts contribute some support to the belief that business cycles are, to a degree, becoming attenuated—that is, that the probability of severe depressions is being reduced. Insofar as the patterns of behavior just described represent factors that operate in a stabilizing

## *Foreword*

direction, the long record of consistent behavior implies that they are rather dependable instruments. Moreover, it is reasonable to expect that a stabilizer that depends on the automatic shift in tax revenues as incomes rise or fall is more likely to operate in a countercyclical manner, and promptly, than one that depends on deliberate and debated changes either in tax rates or in expenditures.

Firestone's report, therefore, while a straightforward factual account of how revenues and expenditures have moved during past periods of business upswing and downswing, adds substantially to our knowledge of the contemporary environment and conditions under which business cycle policies operate. Such knowledge can make these policies more timely and effective, and reduce the risk that unwise policies will be adopted. It is with these objectives in mind that the report should be read and its contribution judged.

GEOFFREY H. MOORE