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METHODS OF FINANCING¹

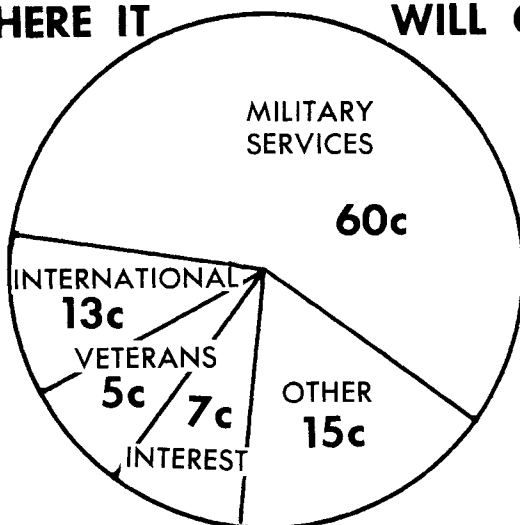
Discussion Led by Dale E. Butz

Why are we interested in discussing this topic? It is one that affects our pocketbooks, one in which we have a personal interest. We have indirect concern because we are interested in what effects government spending and borrowing have on the economy. Unfortunately, these effects are hard to single out because we have so many complex things in the economy. We should start from where we are and examine the problems which we face.

Let's look at the federal budget for 1953. Where will the money go?

THE BUDGET DOLLAR—1953

WHERE IT WILL GO



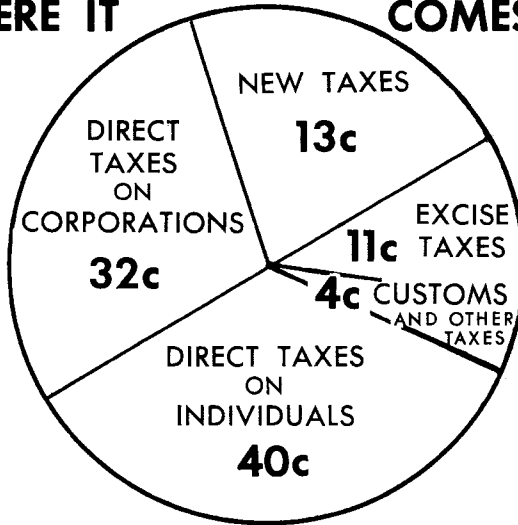
“Other” takes in many things. The remaining four make up about 85 cents out of the dollar. This affects the way in which we finance. Different size budgets mean different kinds and levels of taxation.

¹This section of the program consisted of the presentation of some information by the speaker, followed by questions directed to the audience.

What are the sources of government revenue: taxation, borrowing, printing new money, sale of real assets. Where will the money come from in 1953?

THE BUDGET DOLLAR — 1953

WHERE IT COMES FROM



This is the “bench mark” from which to start.

HOW DO WE DECIDE WHICH TAXES TO USE?

1. Depends upon political considerations.
2. Cost of getting the tax.
3. Effect on risk capital.
4. Effect on production and incentives.
5. Effect on allocation of income.

IS IT POSSIBLE TO DRAW UP CRITERIA FOR A GOOD TAX?

1. Will it raise the necessary revenue?
2. Is it according to the individual's ability to pay?
3. Is its base broad enough so that everyone feels the effects?

4. Can it be collected at reasonable cost?
5. Will it have the desired effects?
6. Is it socially desirable?
7. Does it help regulate the price level thus helping to carry out fiscal policy?

WHAT ARE THE MAJOR PURPOSES OF TAXES?

1. Raise revenue.
2. Assist in regulating income distribution.
3. Assist in distributing political power.
4. At certain times to stabilize revenue and at other times to get a flexible tax system.
5. To stimulate citizenship responsibilities.

It is obvious that we cannot agree on all of these points. Each of us puts more or less weight on the different factors. In the final analysis, taxes are instituted for a variety of purposes. Sometimes these purposes conflict and society through their elected representatives must decide which purpose is the more important.

WHERE DO WE GET FUNDS FOR THE OPERATION OF GOVERNMENT?

1. A wide variety of taxes can be used. We have a rather steeply progressive personal income tax. The President's Council of Economic Advisers has pointed out that taxable income in the upper brackets is nearly exhausted. If we want to increase personal income taxes, it will have to be done by raising the taxes of the lower level income groups.
2. Increasing the national debt is another way of financing government (deficit financing).

WHAT IS THE DIFFERENCE BETWEEN PUBLIC AND PRIVATE DEBT?

1. Public debt is owed "internally."
2. Public has power to tax.
3. Public has nearly unlimited borrowing power.
4. Public debt can be refunded and refinanced.

5. Public debt does not have to be paid back in same time and demand sense as does private debt.

HOW HIGH CAN THE NATIONAL DEBT GO?

1. Ultimately people will lose confidence in the dollar, resulting in revolutionary political changes.
2. Depends upon the size of the national income and level of economic activity.
3. Sharp increases or decreases are more important than absolute levels as far as effects on the economy are concerned.
4. Debt level is secondary in importance to the fiscal policy that is needed to keep the country progressing. By following given policies, we may at various times either increase or reduce debt.

IS IT POSSIBLE TO ASSESS THE EFFECT ON THE ECONOMY OF A PARTICULAR COURSE OF GOVERNMENT ACTION SUCH AS AN INCREASE IN PERSONAL INCOME TAXES?

1. The tax lowers disposable income. This may come from savings or it may come from reduced expenditures. This may adversely affect capital accumulation and investment.
2. Individual may ask for pay increase to cover the tax rise and thus maintain his take-home pay.
3. In either case it is very difficult to ascertain the effect of this transaction either on the supply of goods or the supply of money. So much depends upon what the individual would have done with the money if he had not paid the tax. It is impossible to say whether such courses of action are inflationary or deflationary.

WHAT ABOUT AN INCREASE IN PUBLIC DEBT? HOW DOES THIS AFFECT THE ECONOMY?

1. Depends upon the source of credit.
 - a. Individuals and non-bank sources

Money supply	—	same
Supply of goods	—	same
Net effect	—	none

b. Borrowing from banks

Money supply	— more
Supply of goods	— same
Net effect	— inflationary

SUMMARY

Some of the problems involved in deciding how to finance the federal government have been presented, and the difficulties involved in trying to show the effects on the economy of different courses of action have been illustrated.

So many different sets of conditions are involved in financing the federal government that few general rules can be evolved. Each case must be judged individually. The recommendations at one time might be exactly reversed at a later date if conditions change. This points out the necessity of having a flexible financing program.

A DISCUSSION TECHNIQUE

By C. E. Klingner

We have found that people gathered together for a discussion of a topic, can generally be classified into three groups as far as knowledge of a subject is concerned.

Group A consists of those who are familiar with the subject and usually constitute the smallest number. They are willing to discuss the subject since they are familiar with it.

Those in the second group (or Group B) have some knowledge of the subject but will listen since they do not have confidence. This group is usually the best to work with from an educational standpoint.

The last group (Group C) includes those who know nothing of the subject but talk freely. They have no inhibitions. One of the problems of a discussion leader is to know which group is doing the talking.

The subject should be one in which the group is interested and which has practical application to them. You must have someone in the group who is familiar with the subject.