

Contents

Preface

vii

List of Abbreviations

xix

Part I.

INTRODUCTORY AND SUMMARY

Chapter I: POINTING UP THE ARGUMENT

1

Contents: Reader's Guide

1

The Growth of Debt

3

1.1 1836–1946 (3); 1.2 The Fear of Our Growing Debt (3); 1.3 The Balance Sheet (3).

Growth of Debt in War and Peace

4

1.4 In War (4); 1.5 In Peace (4).

Rise of Debt in Peacetime

5

1.6 Why Government Should Support Demand (5); 1.7 The Objections Raised (7); 1.8 Will Demand Be Adequate? (7).

The Burden

8

1.9 The Problem Is Complicated (8); 1.10 Adverse Effects of a Growing Debt (8); 1.11 Offsets to the Increased Burden (9); 1.12 Burden Is Related to Distribution of the Debt (10); 1.13 Current Distribution (10).

Inflation

11

1.14 Prices and Debt Burden (11); 1.15 The Inflationary Process and Debt Growth (12); 1.16 The Threat of Liquid Assets (12); 1.17 The Fight on Inflation (13).

Management

14

1.18 Keeping Down the Rate of Interest (14); 1.19 The Campaign for Higher Rates, (16); 1.20 The Case against Higher Rates (16); 1.21 The Case against Higher Rates Continued: Is the Security Market to Be Deserted? (17); 1.22 The Case Concluded: Unfavorable Effects of an Initial Rise (19); 1.23 Caution against Over-enthusiasm in Repaying Debt (19).

Chapter II. SOME MAJOR ISSUES

21

Introduction

21

The Probable Size of the Public Debt

21

2.1 The Federal Debt—Early Postwar (21); 2.2 Private Debt in Relation to Public Debt (22); 2.3 Other Forms of Indebtedness Inclusive of Obligations under Social Security and Insurance—Unpublished Debt (23).

The Concern Over the Public Debt

24

2.4 Early Prejudices against Debt (24).

The Debt Psychosis: An Explanation

2.5 The Problems Are Intricate and Cannot Be Fully Understood Even by the Intelligent Minority (24); 2.6 The Economist's Responsibility Is to Spread Truth as Well as to Find It (25).

The Businessman's Fears

25

2.7 Treatment of Excessive Fears (25); 2.8 The Businessman and the Public Debt (26).

Occasion for Growth of Public Debt	26
2.9 Public Debt Primarily Associated with War—but War Debt Wrongly Labeled Dead-weight Debt (26); 2.10 Attitude Toward Debt Originating in Public Improvements (27); 2.11 Debates on Public Debt Originated for the Purpose of Raising or Sustaining Demand (27); 2.12 Early German Discussion of Compensatory Finance (28).	
Public Debt and Public Policy	28
2.13 Orthodox Views on Economic Policy and Private Demand (28); 2.14 The Refutation of Say's Law (29); 2.15 Correction of Deficiency of Demand through Government Spending (29); 2.16 The Maturity Thesis (30); 2.17 An Alternative Explanation: Rigidities in Theory and History (30); 2.18 Appropriate Policies and Adequacy of Demand (31).	
Some Pertinent Questions	32
2.19 Debt Potential (32); 2.20 Supplies and Prices of Securities (32); 2.21 What Determines Public Debt Potential? (33); 2.22 Other Vital Questions (33); 2.23 Bias and Its Cure (34); 2.24 Conclusion (34).	
<i>Chapter III. THE CONTENTS</i>	35
The Clash of Views	35
3.1 Businessman vs. Economist: Finance vs. Employment (35).	
A Fighting Chance for the New Ideas	36
3.2 The Uneven Fight of the Individual against Well-financed "Research" Organizations (36).	
Some Vital Questions	37
3.3 Economic (37); 3.4 Noneconomic (37).	
Spending vs. Specific Cures	37
3.5 Spending and Specific Attacks Not Mutually Exclusive (37); 3.6 Why General Measures Are Popular (38).	
Are Deficits Required in Peacetime?	38
3.7 Can Private Spending Generate Adequate Demand? (38); 3.8 Unemployment, Finance, and Money (39); 3.9 The Meaning of Past Relations of Gross National Product and Spending (39).	
American Industry Looks Ahead	40
3.10 Alternative Fiscal Routes (40).	
Debts, Money, and the Banking System	40
3.11 Adequate Supplies of Money without an Expanding Debt (40); 3.12 Greenbacks vs. Interest-bearing Debt (40).	
Inflationary Aspects	41
3.13 Inflation and a Rising Debt in War (41); 3.14 Inflation and Debt in Peace (41).	
Debt Burden and Prices	42
3.15 The Relation of Debts, Prices, and Productivity Since the Civil War (42).	
The Interest Rate on the Public Debt	43
3.16 Expansion of Debt at Reduced Rates Explained (43); 3.17 The Contribution of Controls to Lower Rates (43).	
Is the Public Debt a Burden?	43
Debt, Wealth, and Income	44
3.18 Effect of Debt Expansion on Wealth (44); 3.19 Growth of Debt and Wealth (44); 3.20 The Analogy with Individuals' Debts Does Not Hold (44); 3.21 Rise of Income Since the Civil War (44).	

CONTENTS

xi

Ownership of the Public Debt and Other Liquid Assets	45
3.22 Growth and Distribution of Liquid Assets (45); 3.23 Debt Ownership (45).	
Tax Capacity and Debt Potential	46
3.24 Measurement of Tax Capacity (46).	
The Tax System	46
3.25 The Revolution in Taxation (46); 3.26 Suggested Tax Reform in Relation to Spending (46).	
Who Pays?	47
3.27 Tax Burdens and Tax Incidence (47); 3.28 Incidence of Particular Taxes (47).	
Management of the Debt	47
3.29 Probable Movement of Securities to Banks (47).	
The Repayment of Debt	48
3.30 Under What Conditions Should Debt Be Repaid? (48); 3.31 Lessons of History (49).	

Part II.

VIEWS ON THE NATIONAL DEBT

Introduction	50
<i>Chapter IV. CLASSICAL AND OTHER VIEWS ON THE PUBLIC DEBT</i>	51
Introduction	51
The Public Debt Is a Burden	51
4.1 The Views of Adam Smith: Public Spending Is Unproductive and Debt Accumulation Harmful (51); 4.2 Ricardo: Funds Advanced to the Government Are Withdrawn from Productive Capital (53); 4.3 J.-B. Say: Government Borrows for Barren Consumption (55); 4.4 John Stuart Mill: Government Borrowing Not Necessarily Harmful (56); 4.5 Neoclassicists: Effects of Debt Are Harmful (57); 4.6 Some Dissenters (57); 4.7 Malthus—The Outstanding Dissenter: Growth and Maintenance of Public Debt Prevents Gluts (60); 4.8 The Germans: Public Debt a Necessary Ingredient of any Higher State Economy (62).	
Public Debt Should Be Repaid	63
4.9 The Sinking Fund Viewed by Classicists as a Device for Increasing Wasteful Public Expenditures (63); 4.10 John Stuart Mill and Other Classicists on Repayment of Debt (65); 4.11 H. C. Adams: Injury Is Done by Contraction of Loan, Not by Its Expungement (67); 4.12 Keynes on Repayment (68); 4.13 Conclusion (70).	
<i>Chapter V. THE CLASH OF VIEWS—BUSINESSMEN VS. ECONOMISTS</i>	72
Businessmen and Economists Toward an Understanding	72
5.1 Progress Toward Agreement (72); 5.2 Continued Differences on Deficit Financing and Public Debt (72).	
Business and Public Debt	73
5.3 Businessmen's Fears of a Growing Debt (73).	
The Economist's Position	
5.4 Interests of Business and Society Not Always in Harmony (74); 5.5 Economists Concentrate on Wasted Resources and, Therefore, on Public Spending and Its Income Effects (75); 5.6 The Economist Emphasizes Real Considerations; The Businessman, Financial Ones (76).	

<i>Chapter VI. NEW IDEAS AND FISCAL POLICY</i>	77
Introduction	77
6.1 The Modern Research Organizations and New Ideas (77); 6.2 The Significance of Financial Arrangements (77).	
Money Is to Be Used to Put People to Work	78
6.3 The Fetish of the Gold Standard and the Balanced Budget (78); 6.4 Disinvestment in Old and Generally Accepted Ideas (79).	
The Influence of Some Research Organizations	79
6.5 Selling Ideas Has Become a Big Business (79).	
The Position of the University Researcher in the Social Sciences	80
6.6 The Unsupported Writer or Research Worker Wages an Uneven Fight (80); 6.7 Current Growth of the Research Organization Tends to Stifle New Ideas (80).	
Sponsored and Unsponsored Research	81
6.8 Support by Research Organizations for Financial Gain (81); 6.9 Businessmen on Public Policy: An Analogy from Medicine (81); 6.10 A Plea for the Unsponsored Author (82).	

Part III.

DEFICITS AND ECONOMIC MALADJUSTMENTS

<i>Chapter VII. SPENDING VS. SPECIFIC CURES</i>	83
Introduction	83
The Popularity of General Measures	83
7.1 Why Deficit Financing May Be Required (83); 7.2 Deficit Spending May Be Directed to Correct Specific Maladjustments (84); 7.3 The Reasons for Popularity of Spending Measures (84).	
Transfers of Men and Capital	85
7.4 The Importance of Mobility (85); 7.5 Relation of Demand and Mobility: British Experience (85); 7.6 Failure to Achieve Human Mobility (86); 7.7 Greater Effectiveness of General Measures (86).	
General vs. Specific Measures	87
7.8 The Folly of Exclusive Reliance on General Measures (87); 7.9 Relation of Deficits and Incomes in War—Relations Should Not Be Generalized (88).	
Additional Objectives	89
7.10 Roads to Increased Spending (89); 7.11 Objectives: Maximum Output and Appropriate Relation between Work and Leisure (89); 7.12 Summary (90).	
<i>Chapter VIII. DEFICITS IN PEACETIME</i>	91
Introduction	91
Old and New Views	91
8.1 The Classical View—Government Spending Is Unproductive and at the Expense of Private Spending (91); 8.2 Modern View: More Favorable to Public Spending (92).	
Types of Public Expenditures	93
8.3 Early Support of Public Investment (93); 8.4 The Increased Support for Public Expenditures for Consumption (93).	
Some Aspects of the Case for Private Enterprise	95
8.5 Projections of Private Spending Which Exclude Deficit Financing (95); 8.6 Projections Which Suggest a Deficiency of Private Spending (96).	

Finance and Full Employment	98
8.7 Why the Government Has Recourse to Deficit Spending (98); 8.8 Alternative Routes to Full Employment: Public Outlay, Remission of Taxes and Orthodox Finance (100); 8.9 Conclusion (101).	

Part IV.

INFLATIONARY ASPECTS

Introduction	103
<i>Chapter IX. THE NATIONAL DEBT, MONEY, AND THE BANKING SYSTEM</i> 104	
The Contribution of a Rising Public Debt to Required Monetary Supplies	104
9.1 Historical Experience (104); 9.2 The Relations Are Further Examined (105).	
Period Analysis of the Relation of Debt and Deposits	105
9.3 The Years 1914-1945 (105); 9.4 If Government Securities Had Been Unavailable, Would Banks Have Purchased Other Assets? (107); 9.5 Effects of Nonrepayment on Monetary Supplies and Income (108).	
Issue of Interest-free Money	108
9.6 The Case for Financing Deposits by Issuing Greenbacks (108); 9.7 The Case against Interest-free Notes (108).	
Proposed Relations with Banks	109
9.8 Returns to Banks Should, However, Be Scrutinized (109); 9.9 The Increased Importance of the Rates Paid to Banks (110); 9.10 Conclusion (111).	
<i>Chapter X. RISING PUBLIC DEBT AND INFLATIONARY PRESSURES</i> 112	
Introduction	112
Inflation Is Not Desirable	116
10.1 Though It May Be Helpful under Certain Conditions (116).	
Inflation and Sales of Government Issues and Bonds	116
10.2 Purchases by Genuine Savers Not Necessarily Non-inflationary (116); 10.3 The Relation of Savings and Sales of Government Securities (116); 10.4 Sales to Banks, Growth of Cash and Deposits, and Net Inflationary Effects (118).	
Late Stages of Debt Expansion	118
10.5 The Inflationary Threat of Financing Interest Payments (118).	
Inflation in War	119
10.6 Inflationary Pressures in Wartime and Their Control (119).	
Unemployed Resources and Deficit Spending	122
10.7 Relation of Increased Demand, Rise of Output, and Net Inflationary Forces (122).	
Full Employment and Inflation	123
10.8 Wage Inflation (123); 10.9 Inflationary Correctives (124); 10.10 Automatic Correctives (124).	
The Cumulative Effects of Monetary Expansion	125
10.11 Growth of Public Debt Can Be Consistent with Price Stability (125); 10.12 The Monetary Breaking Point and Management (126); 10.13 Conclusion (127).	
<i>Chapter XI. DEBT BURDEN AND PRICES</i> 128	
Burden, Productivity, and Prices	128
11.1 Weighting the Effects of Changes in Prices and Output (128); 11.2 Objective: Rising Incomes and Stable Prices (129).	

History of Prices in Relation to Public Debt	130
11.3 Prices in American History (130); 11.4 Prices and the Civil War Debt (130); 11.5 Prices in World War I and Interwar Period in Relation to Debt (131); 11.6 Conclusion (133).	
<i>Chapter XII. THE INTEREST RATE ON THE PUBLIC DEBT</i>	135
The Contents	135
The Decline in the Rate	136
12.1 Significance of a Low Rate (136); 12.2 Deposit Expansion and Rates: Prewar and War (136); 12.3 Income, Savings and Demand for Public Securities (137).	
Has the Rate on Government Securities Fallen by One-third?	139
12.4 Allowance for Changing Composition of the Debt (139); 12.5 An Appraisal of Low Rates: Importance of Short-term Issues and Liquidity (142).	
Rates and Taxes	147
12.6 A Correction of Gross Yield for Taxes (147).	
Rates and Controls	147
12.7 Controls of Prices Keep Rates Down (147); 12.8 Conclusion (147).	
<i>Part V.</i>	
DEBT BURDEN AND DEBT POTENTIAL	
Introduction	149
<i>Chapter XIII. IS THE PUBLIC DEBT A BURDEN?</i>	152
The Negative Side: Debt Is Not a Burden	152
13.1 Transfer Aspects (152).	
The Positive Side of the Question: Debt Is a Burden	153
13.2 Emphasis Is Put on the Tax Burden (153).	
The Middle Ground	154
13.3 Taxation Is a Burden (154); 13.4 Analogy with Private Debts Not Applicable (154).	
The Relation to Distribution of Debt and Taxes and the Effects of Spending	155
13.5 Studies of Tax Burdens and Distribution of Securities (155); 13.6 Tax Structure with and without Debt (156); 13.7 Effects May Be Favorable, and Especially If Allowance Is Made for Effects of Spending (157); 13.8 Conclusion (157).	
<i>Chapter XIV. DEBT POTENTIAL IN RELATION TO WEALTH</i>	159
The Argument	159
Debt and Wealth: Private and Public Aspects	159
14.1 The Analogy with Mortgages on Private Property (159).	
A Hypothetical Example Brings Out the Relevant Variables for Determination of the Debt Limit	160
14.2 Wealth, Debt, and Income (160); 14.3 Source of Taxes Required for Interest (161); 14.4 Will the Necessary Conditions Be Fulfilled? (162).	
Wealth Is Not Destroyed	163
14.5 Public Debt Not to Be Subtracted from Wealth (163).	

Growth of Public Debt—Effects on Income, Rate of Interest, and Wealth	164
14.6 Relation of the Rate of Interest and Income to Wealth (164); 14.7 Growth of Wealth, Debt, and Other Relevant Variables (165); 14.8 Conclusion (166).	
<i>Chapter XV. DEBT POTENTIAL AND INCOME</i>	167
Introduction: The Issues	167
Growth of Income in the Past	168
15.1 Income Has Doubled Every 15 Years on the Average, 1863–1941 (168);	
15.2 Significance for the Future (168).	
Income of the Future	169
15.3 Rise of Output and Man-hour Output—Past and Future (169); 15.4	
The Significant Variables—An Appraisal of Their Importance (170); 15.5	
Estimates of Future Income, and Debt Potential (171).	
Deficits and Income in War	172
15.6 A Case Study: Deficits Raise Incomes (172).	
Several Estimates of Debt Potential	173
15.7 Estimate from <i>Postwar Economic Problems</i> (173); 15.8 Domar's Estimates	
—1944: The Decisive Importance of National Income (174); 15.9 A British	
Estimate: The British Can Finance a Growing Debt (175); 15.10 The Arithmetic	
of a Fantastic Debt (176); 15.11 Conclusion (176).	
<i>Chapter XVI. OWNERSHIP OF DEBT AND DISTRIBUTION OF THE BURDEN</i>	178
Introduction	178
Historical Distribution of Government Securities	178
16.1 1914–1939—Fluctuations in Holdings by Banks and Non-banks (178);	
16.2 War Period—1939–1945: The Banks Maintain Their Share in War (180).	
Some Information on Distribution by Income Groups	180
16.3 Savings Bonds (180); 16.4 Distribution by Types of Holders (181); 16.5	
Interest Payments Suggest Large Holdings by High-income Groups (182); 16.6	
Distribution of Deposits (183); 16.7 All Liquid Assets—Investment in Govern-	
ment Securities and Other Liquid Assets by Business and Individuals (184);	
16.8 The Net Effect of Interest Payments on Spending (186); 16.9 Conclusion	
(187).	
NOTE: Deposits—Growth and Ownership	188

Part VI.

TAXATION AND THE PUBLIC DEBT

Introduction	191
<i>Chapter XVII. TAX CAPACITY AND DEBT POTENTIAL</i>	192
Kinds of Expenditures—General Considerations	192
17.1 Nature of Expenditure in Relation to Tax Capacity (192).	
Increasing Importance of Expenditures for Social Welfare, Interest,	
etc.	192
17.2 Taxpayers' Attitude toward the Rise of Expenditures for Social Wel-	
fare (192).	
Transfer Expenditures	193
17.3 Transfer Expenditures Do Not Use Up Resources (193).	

Income-inducing Expenditures	196
17.4 The Favorable Effects of Expenditures upon Incomes Should Not Be Left Out of Account (196).	
Burden of Taxes	196
17.5 Taxes in Relation to Income—Past and Present (196).	
Tax and Debt Potential	197
17.6 A Summary of a Study on Potentials in 1947, 1957, and 1977 (197); 17.7 Conclusion (199).	
Note on Tax Potential and Debt Potential, 1947, 1957, and 1977	199
 <i>Chapter XVIII. THE TAX SYSTEM</i>	203
Introduction	203
Taxes on Consumption	204
18.1 Why Taxes on Consumption Should Be Kept Down (204).	
Investment and Tax Plans	205
18.2 Various Proposals to Cut Taxes on Investment (205).	
Tax Reduction	205
18.3 Tax Reduction May Go Too Far (205); 18.4 Tax Remission May Not Yield Expected Rises in Spending (206); 18.5 The Manner of Tax Reduction to Achieve Desired Effects (208); 18.6 Under What Conditions Do Taxes Reduce Export Trade? (208); 18.7 Concrete Examples (209); 18.8 Conclusion (210).	
 <i>Chapter XIX. WHO PAYS?</i>	212
The Problem	213
19.1 Regressive Taxes in the United States (213); 19.2 Regressive Taxes in Great Britain (213).	
The Problem of Incidence and Effects	214
19.3 The Orthodox View (214); 19.4 Reservations to the Orthodox Position (215).	
Incidence of Other Taxes	216
19.5 General Property Tax (216); 19.6 Pay-roll and Excise Taxes (217); 19.7 Taxes Should Not Weigh Too Heavily on Consumption (217); 19.8 How to Adjust Income Taxes Consistent with Maximum Gains in Investment (219); 19.9 Conclusion (220).	

Part VII.

THE MANAGEMENT OF THE PUBLIC DEBT

Introduction	221
 <i>Chapter XX. SOME FACTS</i>	222
The Composition of the Public Debt	222
20.1 Public Issues Classified; Special Issues (222); 20.2 Nonmarketable Issues and Their Significance (222); 20.3 Importance of Special Issues: Sales to Government Agencies and Trust Funds (224).	
The Changes Wrought by War	224
20.4 Increased Importance of Short-term and Nonmarketable Issues (224).	

CONTENTS

xvii

Who Holds Government Securities?	226
20.5 Distribution of All Interest-bearing and All Marketable Issues (226);	
20.6 Financial Institutions' Relative Stake Declines (227); 20.7 Purchasers	
Who Contribute to Inflation and Those Who Do Not (227).	
Holdings by Maturities	229
20.8 Bank and Nonbank Investors (229); 20.9 Historical Decline in Maturi-	
ties (231); 20.10 Summary (233).	
<i>Chapter XXI. HOW LARGE IS THE DEBT?</i>	234
Introduction	234
Nonrecorded Debt	235
21.1 Social Security (235); 21.2 Veterans' Insurance (236).	
Other Obligations	237
<i>Chapter XXII. DEBT MANAGEMENT: DISTRIBUTION OF ISSUES, RATE OF</i>	
INTEREST, AND PRICES	238
Maintenance of Prices	238
22.1 The Government's Stake in the Price of Government Securities (238); 22.2	
Distribution of Public Securities by Maturities (239); 22.3 Potential Sales (239);	
22.4 Potential Sales of Interest-bearing Debts by Commercial Banks (240);	
22.5 Over-all Potential Sales (242).	
Future Interest Rates	247
22.6 Shift to Long-term Issues? (247); 22.7 The Great Debate: Higher or	
Lower Rates, a. Treasury Policy, b. Is a Rise in Rates Necessary? (251).	
In Relation to Inflation	254
22.8 Inflationary Dangers (254); 22.9 Anti-inflationary Tactics (255); 22.10	
Conclusion (256).	
<i>Chapter XXIII. REPAYMENT OF DEBT</i>	258
23.1 The Issues (258).	
A Survey of Views	259
23.2 Orthodox View Favors Repayment (259); 23.3 Some Opposition to Re-	
payment (260).	
To Repay or Not to Repay?	261
23.4 Case for Repayment Is Strong in Inflationary Periods (261); 23.5 Repay-	
ment under Deflationary Conditions Unfortunate (261).	
Historical	263
23.6 Post-Civil War (263); 23.7 The United States, 1920-1930 (265); 23.8	
The British Debt, 1818-1913 (267); 23.9 The British Episode, 1920-1926 (268).	
23.10 Conclusion (269).	
<i>Chapter XXIV. DEBT MANAGEMENT AND BROADER ISSUES</i>	271
24.1 Economists Generally Do Not Favor Higher Rates (271); 24.2 Debt	
Management as An Instrument of Control (271); 24.3 Are Rates Too Low?	
(272); 24.4 The Attack on Inflationary Forces (272); 24.5 Repayment of	
Debt (273); 24.6 The Early Postwar (275).	
Conclusion	276
Name Index	279
Subject Index	283