(*f*) Real Cost of Government Expenditures

(Submitted by Mr. Towers in reply to Mr. McGeer)

(Volume 3, page 64)

The real cost of government expenditure is use of labour and equipment. That is my general propositon. The real cost of government expenditure to the country as a whole is the amount of labour and equipment required to carry out the various projects. When the question is asked if we can finance a certain government expenditure, the fundamental problem is whether we can afford to devote a certain amount of our productive resources to the projects in question. The problem of how the government can obtain the money which will give it the title to the use of labour and equipment, may present considerable technical difficulties, but it is not the fundamental problem; and the particular fiscal method by which the government may decide to acquire the money from the public has little or no effect upon the *real* cost of these projects to the country as a whole, although it may have a considerable effect upon other factors in the economy.

(*g*) Tax Reduction Instead of Increased Government Expenditures

(Submitted by Mr. Towers in reply to Mr. Deachman)

(Volume 17, page 559)

It has been suggested that the effect of government "deficit spending" might be obtained by reducing rates of taxation rather than by increasing the level of government expenditures.

As I understand it, the theory underlying the proposal to lower tax rates is that such action would impart a stimulus to private spending which would restore general economic activity of a more normal character than might be obtained by increased government participation in various projcets.

If I am correct in my understanding, then the fundamental consideration is whether lower taxes will actually result in an increase in private spending. In this respect the nature of the taxes involved and the particular time at which the reductions are made seem to me to be very important.

Insofar as taxes are paid with money which would otherwise remain idle, I do not suppose that there would be any increase in private spending if the rates were lowered. Only to the extent that existing taxes are actually impeding private spending would one expect to obtain a stimulus to increased private activity.

The circumstances in which a reduction of tax rates was made appears to me to be an important factor in determining the reaction upon the volume of private spending. When the level of business conditions is declining and the psychological attitude of the public is towards a further deterioration, I doubt whether a reduction in tax rates would be a sufficient stimulus to initiate a revival of confidence in the future and increase private spending. A rise in idle balances would be much more likely.

Not only is reduction in taxes a less positive stimulus to increased activity than government spending, under the conditions just mentioned, but it is a considerably less flexible technique. Very seldom is it true that depression is spread evenly over the fiscal area affected by any given tax. Therefore the benefit, if any, from the tax reduction tends to be diffused and to a considerable extent go to sections which relatively speaking are not in need. Government spending on the other hand, is a method which can in most cases come nearer to benefiting only the desired section of the economy.