

## SOME ECONOMIC ANALYSIS OF INFLUENCES OF GOVERNMENT EXPENDITURES ON THE NATIONAL ECONOMY

Prof. Tadao YAMAGUCHI  
University of Chûo, (JAPAN)

— 1 —

In beginning with my lecture on the subject of today, please let me express my fundamental idea regarding to our national economy, although it may be somewhat philosophical.

There are many arguments with regard to how we have to make our conception of economic community as a whole. One of disputants maintains that the public economy (Staatswirtschaft, öffentliche Finanzwirtschaft) is confronted with the capitalistic market economy (kapitalistische Marktwirtschaft) each other. Another argues that the public economy is included in the capitalistic economy, that is, the former is governed and restricted by different economic principles. There is, to a thinker who recognizes the antagonistic relations between the public economy and the market economy is only superficial, and both economies are in cooperative relations, aiming at the same end by means of different measures

Concerning to these arguments mentioned, I have ever discussed them in my treatise on Logical Structure of Economic Community and Principles Governing the Taxation (in Japanese), by studying the theories of Hans Ritsch, G. Colm and Herbert Sultan etc<sup>1</sup>. So, I would like

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1) In this article, I have referred to H. Ritschl, *Gemein Wirtschaft und kapitalistische Marktwirtschaft*, Tübingen 1931. Ritschl, *Theorie der Staatswirtschaft und Besteuerung*, Bonn-heipzig 1925. Ritschl, *Der Staatsschauspiel in der Depression*, *Archiv f. Sozialwiss. u. Sozialpol.*, Bd. 69. 1933. W Gerloff, *Steuerwirtschaft und Sozialismus*, *Archiv f. die Geschichte des Sozialismus*, 1922. Herbert Sultan, *Die Staatseinnahmen*, Tübingen 1932. Sultan, *Ueber das Verhältnis von Steuerstaat und Unternehmerstaat*, Fest-

to refer to only my conclusion gained from this study, abbreviating details of my arguments.

H. Ritschl's opinion is that our national economy is to be recognized as a dual economy, and there are fundamentally different economies, namely, on the one side Staatswirtschaft and on the other side kapitalistische Marktwirtschaft, and although both economies are in antagonistic relations, at the same time, they are in mutual complementary relations. H. Sultan's conception about the structure of the economic community is different from Ritschl's. Sultan develops his sociological thought. According to him, the national economy in which we live is not a dual economy, and it must be considered as a united and consolidated whole. With C. Brinkmann<sup>2</sup>, he points out the facts that the modern states and modern capitalism have sprung from the same origin — the same sociological and cultural environments. He rests fundamentally on these facts.

Well, referring to my idea, I think too, with Sultan, our national economy is to be considered as a united whole, but, I cannot deny Ritschl's idea of the antagonistic-cooperative — compensatory relations between the public economy and the market economy.

The historical study of social and economic developments of many countries called capitalistic will reveal us that in accordance with the circumstances and the necessity of the time, sometimes the antagonistic aspect of the relations mentioned were reflected clearly, and sometimes the cooperative-complementary aspect of the relations between both economies were imaged on us.

Besides, I should like to express what I have in mind, although it is my tentative idea. Whether the relations between the state and the market economy (the private sector) are antagonistic or cooperative-comp-

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gabe f. G. v. Schanz, Beiträge zur Finanzwiss., Bd. 1. Tübingen 1928. Sultan. Die reine "Theorie der Staatswirtschaft und Besteuerung" und die Finanzsoziologie, Archiv f. Sozialwiss. u. Sozialpol., Bd. 59. 1928. Horst Jecht, Wesen und Formen der Finanzwirtschaft, Jena 1928. Gerhard Colm, Volkswirtschaftliche Theorie der Staatsausgaben, Tübingen 1927. F. Tönnies, Gemeinwirtschaft und Gemeinschaft, Schmollers Jahrb. 58 Jahrbang 1934, halbb.

2) Carl Brinkmann, Die Moderne Staatsordnung der Kapitalismus, GDS. LV. Abt., 1 Teil, Tübingen 1925.

plementary depend upon the following circumstances. That is to say. When the state (vorenment), by means of its public finance, stimulates and promotes capital-accumulation in private sector, it can be said to have cooperative-complementary function. On the contrary, if the state, through its government finance, hinders and retards capital-accumulation of the market economy, its function must be considered as antagonistic<sup>3</sup>.

— 2 —

Allocation of economic resources and capital-formation in national economy:

In the real world, all economic resources are not always fully employed. That is. There is no full employment. Sometimes we are suffered from unemployment — they speak generally of labour-unemployment, but unemployment is not limited to it, there are land-unemployment and capital-equipment-unemployment. In short, when there are unemployment of one of factors of prudiction, there are some idle resources.

In spite of this real circumstances, in dealing with economic theory, we are able to assume that we have full-employment of economic resources. That is the assumption of full-employment. It may be said that it is a traditional but reasonable way to study how economic resources are employed in national economy, on assumption of full-employment. Except Keynes, Hayek<sup>4</sup>, Schumpeter<sup>5</sup> and many theoretical economists

3) In this connection, it is necessary to give some remarks on the public expenditures for social services. If the government makes outlay for social services within a certain limit — of course, it is very difficult to fix the limit — these expenditures will not be inconsistent with the cooperative-complementary function of the state. But, if the government makes too much outlay for social services, obstacles must be thrown on capital accumulation of the private sector. Is it a mistake to consider U. K. as a typical country, where, owing to excessive public expenditures for social services, capital accumulation of the market economy is checked and economic growth is retarded? So, in short, the government must find, I think, efficient measures by which it can promote the welfare of the people and facilitate capital formation in private sector at the same time. The fiscal policy is considered as the very measure capable of performing these functions.

4) Friedrich von Hayek, *Preise und Produktion*, Wien 1931. S. 33ff. Hayek, *Prices and Production*, London 1932.

5) J. Schumpeter, *Theorie der Wirtschaftlichen Entwicklung*, Weite Aufl., 1926. S. 102ff.

are developing their economic theories, assuming that there is no unemployment of economic resources.

Well, my next task is to explain capital-formation from a viewpoint of allocation of economic resources, assuming that there is no unemployment.

Let us, at first, consider about the allocation of economic resources. There are many ways in allocating resources. We can allocate resources to the textile factories in order to enable the production of these factories to increase. We can allocate economic resources to the iron and steel factories in order to increase the outputs of these factories. We can also allocate economic resources to some service industry to make it grow larger. Like this, there are many ways in allocating economic resources. But, considering theoretically, it is important to answer the next question. That is: what sort of allocation of economic resources is favourable to the capital-formation in national economy?

If it is so, then, we must begin with explaining the capital-formation. So far we rest on the assumption of full employment, we can outline the capital-formation-process as follows. The capital will be formed when productive-goods (capital-goods) like iron, steel, machines, ships, roads, transportation facilities, bridges, railways, trunks, electric-power equipments, some materials and stuffs etc. are produced more in comparison with production of consumption-goods like foodstuffs, textile, goods and services. This relation means that it is necessary to allocate more economic resources to the production of productive-goods. If there are still idle resources, we can take these and allocate them additionally to the productive-goods industries. But, as we rest on the assumption of full-employment, we cannot do so. Therefore, if it is necessary to allocate more additional resources to the productive-goods industries, we must take these additional resources from economic resources used in the consumption-goods industries. Consequently, the capital-formation means the transfer of economic resources from the consumption-goods industry to the productive-goods industry. So, while capital is being formed, we are enforced to cut down economic resources employed in the consumption-goods industry and allocate them to the productive-goods industry. As the result of this, during the capital-formation, we have to give up the idea of the increasing of the consumption-goods and services, although we can expect the increase of these goods and services in the future, thanks to the augmented capital.

— 3 —

Now, in this place, we can deal with the influences of the government finance, especially of its expenditures on national economy.

Our problem is shown in the next question: What relation is there between the government expenditures and the allocation of economic resources in national economy? But, there are many sorts of government expenditures, and each of them has its own function. Consequently, our problem is to be modified as follows. How does each separated — individual — expenditure relate to the allocation of economic resources in national economy?

By the way, it is needless to say that each expenditure takes a form of money-payment, and therefore it shows and means the demand for something. It will be finally the demand for a part of economic resources through demanding the productive-goods or the consumption-goods.

From this viewpoint, for a little while, we are concerned with the classification of the government expenditures. According to my view<sup>6</sup> it is reasonable to classify the government expenditures in accordance with the economic function of each expenditure mentioned below. This economic function is as follows:

- (1) the case in that the demand for economic resources is caused directly by an individual expenditure.
- (2) the case in that the demand for economic resources is caused directly by an individual expenditure.

The first case means the government employs directly a part of economic resources and uses it. On the contrary, in the second case, the government employs indirectly a part of economic resources through its buying of the consumption-goods and services, or through the receiver of its expenditure-money-transfer expenditure.

So, the second case may be divided into two, one is a sort of real expenditure (although its relation to economic resources is indirect), other is transfer expenditure. In order to distinguish between the real

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6) I have ever written about the classification of public expenditures, examining theories of many authors regarding to public expenditures. See my work, *Government Finance and National Economy — Theoretical and Statistical inquiry into the functions of public expenditures from viewpoint of national economy*, Tokyo 1941 (in Japanese).

expenditure of the second case and the expenditure of the first case, we must call the former the 2nd real expenditure and the latter the first real expenditure. For the sake of abbreviation, we may use the expression of I-R.exp. and 2-R-exp. Pigou has contributed to classification of public expenditures. But, he, in the 1st ed. of his *A Study in Public Finance* (in 1928), maintains the difference between exhaustive exp. and transfer exp. but he adopts the distinction of real exp. from transfer exp. in the 2nd ed. of this work (in 1929). Finally he prefers the expression of non-transfer and transfer exp. to the former manifestation in the 3rd. ed. of the book (in 1947). Pigou seems to have not divided non-transfer expenditures into two, but I would like to do so. I think it is necessary to distinguish two different real expenditures, that is, I-R-exp. and 2-R-exp., in order to study the relations of public expenditures to allocation of economic resources.

Here, it is the time to refer to the concrete examples of expenditures that belong to respectively to each category of government expenditures.

Firstly, speaking of the expenditure belonging to I-R-exp., there are the expenditures that will cause the demand for producers' goods (or investment or capital goods) such as raw materials, semi-finished goods, fuels & energy and constructive materials. These goods are to be used mainly and directly in the government enterprises (railway and telegram-telephone), and in its public works (flood control, road improvement, harbour, fishing port & airport construction, housing improvement, sanitary improvement, improvement of agricultural foundation, forest road and water supply for industrial use and disaster rehabilitation and so on). Besides, we must count land and labour in this category.

Secondly, referring to 2-R-exp., there are the expenditures that will cause directly the demand for consumers' goods (consumption-goods) such as farm products, foodstuffs, textiles, furnitures, fuels and light, clothing papers and stationaries, printing machines and etc.

Thirdly, we can mention the following items as the transfer expenditures: all sorts of annuities and pensions (pensions for civil servants, pensions for veterans and war-bereaved families of soldiers), all kinds of subsidies, contributions and assistances which are the one-sided (unilateral) payments of the government of promotion of industry, commerce, education and scientific research and so on, all sorts of grant-in-aid to local government (in Japan 30 % of national tax revenues is transferred to local government), indenities, reparations and internally allotted charges etc. The feature of these transfer expenditures are found in that the go-

vernment don't dispoire directly any counter-presentation through these expenditures. In addition, we must mention the payments of national debt and its interest (inclusive of foreign national debt and its interest).

We may call all of these expenditures the money-transfer-expenditures, because their aims are always the one-sided money payments. On the contrary, two real expenditures mentioned above may be recognized as those capable of getting counter-presentation such as goods and labours.

— 4 —

On the basis of the preceding study, we can, by referring to the influences of the three expenditures mentioned on allocation of economic resources, give a provisional end to my lecture.

1) I-R-exp. will change directly the state of allocation of economic resources employed in national economy, and give some influences on the prices of economic resources.

(a) The increase of these expenditures will increase economic resources to be employed in the public sector and reduce them to be employed in the private sector. The increasing demand of the public sector for economic resources will compete with the demand of the private sector for them, under full-employment. And as the result of this competition, the prices of these resources will be raised up.

(b) When the increasing demand of the government for economic resources is supplied with, by transferring economic resources from the capital-goods (investment-goods) industry to the public sector, I-R-exp. will reduce the production of productive-goods, and give a damage to capital-formation in another way (for example, in the way of increasing capital-formation by the government's enterprises or by its public works).

(c) When the increasing demand of the government for economic resources are met with by transferring economic resources from the consumption-goods industry to the public sector, we can distinguish these cases into two:

(i) The economic resources transferred to the public sector are employed so to make public capital-formation by the government enterprises possible.

(ii) The economic resources transferred to the public sector are employed only so as to let the production of another consumption-goods increase more.

If it is the case of (i), the capital-formation will be promoted, although this formation is in the public sector. But, if it is the case of (ii), the state of capital-formation in national economy will be changed hardly.

2) 2-R-exp. will change indirectly the state of allocation of economic resources in national economy. But, we cannot say exactly. Whether it is favorable to capital-formation indirectly or not, depends almost upon the nature of 2-R-exp. concerned.

3) The relations of the transfer expenditures to allocation of economic resources are also indirect. Whether these expenditures can contribute to capital-formation in national economy or cannot, depend upon how the receivers of these expenditures use transferred money. Subsidies given to the capital-good makers by the government are considered to be employed by them in order to maintain the existing equipments or to establish a new capital-equipment.<sup>7</sup> On the contrary, Subventions for the sake of supporting people's living such as pensions and unemployment allowances will increase the demand for consumption-goods and consequently change the state of allocation of economic resources in national economy. And this change would be always unfavorable to capital-formation itself.

— 5 —

#### *Some remarks on personnel expenditure*

The personnel expenditure is also a partly real expenditure. This expenditure is paid for human physical and intellectual labour of civil servants. The government can perform its administration by utilizing their labours. The important aspect of this expenditure from economic point of view is found in that salaries and remunerations paid for civil servants by the government will cause mainly the demand for consumption-goods. We don't deny that some savings may be expected from some civil servants whose salaries are relatively higher and larger. But, their capacity to save is not so strong and large that their indirect demand for productive-goods will not usually exceed their direct demand for consumption-goods.

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7) Freudenberg, Die Subventionen, 1934. ss. 21-24.