"The Fiscal Policy Seminar: Its Early Stages" by Richard A. Musgrave

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Abstract: Alvin Hansen and John Williams' Fiscal Policy Seminar at Harvard University is widely regarded as a key mechanism for the spread of Keynesianism in the United States. An original and regular participant, Richard A. Musgrave was invited to prepare remarks for the 50th anniversary of the seminar in 1988. These were never published, though a copy was filed with Musgrave's papers at Princeton University. Their reproduction here is important for several reasons. First, it is one of the last reminiscences of the original participants. Second, the remarks make an important contribution to our understanding of the Harvard School of macro-fiscal policy. Third, the remarks provide interesting insights into Musgrave's views on national economic policy making as well as the intersection between theory and practice. The reminiscence demonstrates the importance of the seminar in shifting Musgrave's research focus and moving him to a more pragmatic approach to public finance.

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Key Words: Richard A. Musgrave, Alvin Hansen, Harvard University, Fiscal Policy

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Introduction

Alvin H. Hansen and John H. Williams' Fiscal Policy Seminar at Harvard University has been identified as the critical conduit, the "key channel" for the spread of Keynesianism in the United States (Cord 2013, 56). Paul Samuelson wrote that "the Keynesian revolution was the most significant event in 20th-century economic science. It was Harvard University that played the pivotal role in bringing it to America" (1988, 32). Gottfried Haberler called the seminar "famous;" it was "through Hansen's forceful personality [that] the Fiscal Policy Seminar became a vehicle for spreading Keynesian ideas and for the training of numerous Keynesian economists who later strongly influenced economic policy in Washington" (Haberler 1976, 11).[1] Richard Musgrave claimed "The Fiscal Policy Seminar…soon became the U.S. vehicle for Keynesian economics and its policy applications" (Musgrave 1988, 2 - 3). "The seminar left a deep impact on the future development of macroeconomics and public policy in the United States" (Musgrave 1976, 5). "It is safe to say that the Seminar had some significant indirect influence on national economic policy, for the alumni of its Hansen-Williams era include many who went on to become officials of the Federal government with important economic responsibilities" (Salant 1976, 21 – 22). When the American Economic Association awarded Hansen the Francis A. Walker Medal in 1967, the seminar was specifically mentioned in the award citation.

The creation of the Fiscal Policy Seminar in 1937 was part of broader changes in the teaching and practice of economics at Harvard during that decade. From 1891 to 1933, the department had offered only a single seminar in political economy. Organized on a rotation basis by faculty, the seminar followed the presentation-discussion format common in German universities. Seminars featured Harvard instructors, graduate students, and visiting guest speakers; they occurred on a sometimes monthly and sometimes weekly basis, depending on the organizer.[2]

[1] Daniel Yergin and Joseph Stanislaw (2002) write that "The most powerful beachhead proved to be the Harvard economics department, led by Professor Alvin Hansen and supported by a host of other converts and recruits – from full professors right down to undergraduates. The intellectual work was centered in Hansen's Fiscal Policy Seminar, which brought the latest academic research and Washington policy makers together on a regular basis."

[2] Irwin Collier's *Economics in the Rearview Mirror*, see "Harvard. Seminar in Economics. Topics and Speakers, 1891/2-1907/8," http://www.irwincollier.com/harvard-seminary-in-economics-topics-and-speakers-18912-19078/ and "Harvard. Economics Seminar Schedules 1929-32," http://www.irwincollier.com/1961-2/.

By the early 1930s, however, the trend toward greater specialization combined with a substantial increase in the size of the graduate program meant that differentiated seminars could be supported. The establishment of the Graduate School of Public Administration – the Littauer Center – in 1936 contributed both faculty and students to the economics seminars. In its first year, Williams, then the dean of the new graduate school, reported "a total enrollment of one hundred and eighty-eight students in the various seminars of the School. We began last year with five seminars and have expanded the program this year to eleven."[3] In identifying potential topics, Williams sought "subjects presenting problems of large public importance, problems of both policy and of procedure, requiring the combined efforts of different disciplines within the social sciences and permitting of effective cooperation between the University and the public service."[4] Thus, although Hansen had been recruited to Harvard by Williams, at least in part, to run the fiscal policy seminar (Backhouse 2017, 245), the general structure and its procedure of operation preceded his appointment, having taken its direction from the longer seminar tradition at Harvard. What Hansen uniquely provided was energy and excitement (Backhouse 2017; Barber 1987; Stein 1969).

The Fiscal Policy Seminar was tasked with tackling some of the most fundamental economic policy questions of the day.

> The seminar is concerned with public finance in relation to economic, political, and social institutions and systems. It deals with the monetary aspects of expenditures and revenues, with public finance as a compensatory mechanism in the business cycle, and with the social and political implications of government spending."[5]

As such, the seminar was always intended to involve practitioners as well as academics. Attendees included students of the School for Public Policy, various auditing graduate students, and Harvard faculty. "The crowded room is one of the impressions most vividly recalled by old alumni" (Salant 1976, 17). One meeting each week was devoted to developing publishable research papers; the second featured "visiting consultants," most of whom worked in government.[6] Early visiting speakers included Roy Blough, then Director of Tax Research at the Treasury and later of the Council of Economic Advisors, and Lauchlin Currie, then the Assistant Director of the Division

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[3] Collier's *Economics in the Rearview Mirror*, see "Harvard Economics. Hansen and Williams Fiscal Seminar, 1937 – 1944." http://www.irwincollier.com/harvard-economics-hansen-and-williams-fiscal-seminar-1937-1944/#FPS37-38

[4] *Ibid.*

[5] Williams in the 1936 – 1937 annual report for the graduate school; see Collier, *op. cit.*

[6] Common were visitors from the Treasury, the Federal Reserve Banks in New York and Washington, D.C., the Social Security Administration, the Office of Price Administration and the Works Progress Administration. Collier, *op. cit.*

of Research and Statistics at the Federal Reserve Bank. Ewan Clague, Gerhard Colm, Gardner Means, Gunnar Myrdal, and Carl Shoup were invited regularly in the first few years.[7]

On April 25th, 1988, Harvard's school for public policy, now the John F. Kennedy School for Government, hosted alumni for the fiftieth anniversary of the Fiscal Policy Seminar. Richard Musgrave, Paul Samuelson and Water Salant were the featured speakers.[8] Musgrave subsequently submitted his reminiscence to the *National Tax Journal*. The editor believed that while it was an "excellent paper," some parts "would be less appropriate for a broader audience." He suggested that Musgrave use parts as the basis of a longer paper on the history of stabilization policy (Daniel M. Holland to Musgrave, 21 September 1988, Richard A. Musgrave Papers, Box 3).[9] This project never materialized and Musgrave's comments were left unpublished.[10]

Even without Samuelson's theatrical claim of Alvin Hansen as the "King of the American Keynesians" and "Richard [Musgrave] assuredly…his Prince of Wales,"[11] the reproduction of Musgrave's remarks on "The Fiscal Policy Seminar: Its Early Stages" are important for several reasons. First, we marked the eightieth anniversary of the seminar – which still operates – in 2018; however, we are no longer able to call on participants from those first few years for their recollections. Second, Musgrave's discussion of the early years of the seminar provide vital context for understanding his shift from a continental-German to a more 'American' approach to public finance. There is no autobiography or biography for Musgrave. His papers, deposited at Princeton University, consist of only eight boxes of materials, most of which were relatively recent. Thus, the few places where Musgrave discusses his intellectual influences are of particular

[7] "Hansen himself saw to it that different views were presented in the seminar. He was liberal and imaginative in inviting interesting speakers, even if he strongly disagreed with their views" (Haberler 1976, 12).

[8] Walter Salant studied directly under Keynes while visiting Cambridge in 1933 - 1934 after completing his undergraduate degree at Harvard. At the time, Keynes was lecturing on what would become *The General Theory* (1936). Salant returned to the U.S. and worked for various New Deal programs, shifting many in government toward Keynesianism. Salant was credited as helping Hansen start the Fiscal Policy Seminar while a graduate student at Harvard. He returned to Washington in 1938 to join the Securities and Exchange Commission (*Washington Post* 1999: online) but remained a frequent visitor to the seminar. See "Oral History Interview with Dr. Walter S. Salant" completed for the Harry S. Truman Library: https://www.trumanlibrary.org/oralhist/salantws.htm.

[9] The Richard A. Musgrave Papers are henceforth noted as RAM Papers.

[10] An early plan for the commemoration included publishing the remarks of the speakers in a special issue of the *Quarterly Journal of Economics* (*QJE*). While the editor of the journal, Martin Feldstein, was enthusiastic about this idea (Feldstein to Musgrave, July 18, 1986, RAM Papers, Box 6), Ben Friedman did not think the papers would be of high enough quality for a special issue of the *QJE* or for the *Review of Economic Studies*, as Musgrave had suggested (Friedman to Musgrave, July 16, 1986, RAM Papers, Box 6).

[11] Paul A. Samuelson. Eulogy to Richard A. Musgrave, read at the Harvard Memorial Chapel, 18 May 2007. Paul A. Samuelson Papers, David M. Rubenstein Rare Book and Manuscript Library, Duke University, Box 54. On the relationship between Musgrave and Samuelson, see Desmarais-Tremblay (2017a).

value. Third, these remarks make important contributions to our understanding of the "Harvard school of macro policy" (Musgrave 1976, 5). Musgrave's comments help to identify the roots of his Keynesianism which he adeptly applied through the field of public finance, perhaps most obviously in his classic 1959 treatise that exhorted the government to take responsibility for "allocation, distribution and stabilization" of the economy.

Documenting Harvard's Fiscal Policy Seminar and Musgrave's Contribution

Musgrave's reflections help to round out the variety of documents existent from Harvard's Fiscal Policy Seminar. Irwin Collier's archival website, *Economics in the Rearview Mirror*, has made available the annual reports to the dean, the motivations and objectives for the seminar each year, and the lists of the weekly topics and guest speakers.[12] These take the seminar from its inaugural year during the recession of 1937-1938 through the end of the Second World War in the spring of 1945. The Seminar continued to be taught by Williams and Hansen until the latter's retirement in 1956. Throughout the 1940s and 1950s, the seminar remained the most important mechanism of change. Archival documents relating to the seminar can be found in the Paul A. Samuelson Papers, in the Walter Salant Papers, and in the Alvin Harvey Hansen Papers.[13]

A wide variety of historiographic materials also exist. On the one-hundredth anniversary of Hansen's birth, the *Quarterly Journal of Economics* published a festschrift that included contributions by Haberler (1976), Musgrave (1976), Samuelson (1976), and James Tobin (1976); all briefly discussed the Fiscal Policy Seminar but provided little specific detail. In the same collection, Salant (1976) devoted ten pages to the Fiscal Policy Seminar, describing Harvard economics of the period and the intellectual influences of the seminar. David Colander and Harry Landreth (1996) collected interviews with twelve economists associated with *The Coming of Keynesianism to America*, including Salant, Kenneth Galbraith, and Evsey Domar, as well as Samuelson and Musgrave, on the central role played by Harvard and the seminar. A broader picture of the "Fiscal Revolution in America" can be found in Herbert Stein's book of that name (1969); see also Robert Cord's *Reinterpreting the Keynesian Revolution* (2013) and Roger Sandilands

[12] Collier's *Economics in the Rearview Mirror*: "Harvard Economics. Hansen and Williams Fiscal Seminar, 1937 – 1944." http://www.irwincollier.com/harvard-economics-hansen-and-williams-fiscal-seminar-1937-1944/#FPS37-38.
[13] The Samuelson Papers can be found at the Rubenstein Library of Duke University. Salant's papers are at the Harry S. Truman Presidential Library. Harvard University Archives hold the Hansen papers.

(2001). Roger Backhouse's (2017) consideration of the influence of Hansen and the seminar on Samuelson provides another perspective.

Benjamin Friedman, professor of economics at Harvard University, had the primary organizing responsibility for the fiftieth anniversary of the founding of the seminar, which was planned for 2pm on Monday, April 25, 1988. Friedman had approached Musgrave two years earlier about the possibility of speaking at the event. In his enthusiastic reply, Musgrave suggested writing a retrospective piece: "I believe (and feel that this can be stated objectively, without undue sentimental feelings about my own years as a graduate student) that Alvin's seminar during those years was one of the high points in the history of Harvard economics" (Musgrave to Friedman, 11 June 1986. RAM Papers, Box 6). Friedman later wrote to Salant that, along with himself, "Dick Musgrave and Paul Samuelson have agreed to be two principal speakers. I hope you and they can find an opportunity to divide the subject matter between you so as to avoid too much repetition" (Friedman to Salant, 22 January 1987, Walter S. Salant Papers, Box 26). In a letter to Samuelson, Musgrave laid out the plan.

> In connection with our April festivities, look back at the Fiscal Policy Seminar of 50 years ago, let me mention that I talked to Walter Salant and he agreed that his comments would primarily focus on the early history of Keynesian economics in the U.S. and its role in the seminar, and that I would address some of the major policy issues now before us, such as social security, the debt, the undistributed profits tax, the TNEC[14] hearings and so forth. I thought that you might like to know this so that you can fit in as you see best. There is, of course, nothing wrong with some overlaps. Alvin as the heart and soul[15] of the enterprise will figure into all this. If you would like to address his contribution to the (then) New Economics, that would be fine, but you are of course entirely free to choose your topics. (Musgrave to Samuelson, 26 February 1988, Walter S. Salant Papers, Box 26).

In the end, Samuelson chose to reminisce, ostensibly on the Fiscal Policy Seminar, but primarily on the role of Harvard and of Keynes on the development of mid-century American economics. Much of Samuelson's speech was self-reflective, illustrating how his work moved Harvard Keynesianism forward. His comments from the anniversary event were published in *Challenge*

[14] The Temporary National Economic Committee was established by a joint resolution of the U.S. Congress. It operated from 1938 through 1941. The committee's primary function was to examine the extent of monopoly powers and their impact on U.S. economic performance. Lauchlin Currie convinced the architects of the TNEC to address macroeconomic policies. He provided empirical support, notably calculating a new fiscal deficit series - different from the cash deficit - to show the "Federal Net Income-Increasing Expenditures" and the "Income-increasing Deficit" (Sandilands 1990, 73).

[15] The original letter contains a typo that we correct: "soul" has replaced "sole."

(1988). Salant also provided a paper, but we are unable to locate a copy.[16] Musgrave's remarks for the fiftieth anniversary of the Seminar were quite different from Samuelson's, and they fill an important gap between the archival documents available through Collier, the letters or papers deposited by economists at various universities and libraries, and the reminiscences published by the *Quarterly Journal of Economics* (1976) as compared to historiographic works such as that by Colander and Landreth (1996). The Musgrave piece reproduced here is considerably longer than his previous reminiscences regarding the Seminar, and it is a hybrid of memoirs and serious scholarly work in the history of economic thought.

Hansen, Keynes, and the Seminar as Catalyst

The metaphor of Keynesianism as religion, with Hansen as a convert, and his Harvard students as disciples has a long and convoluted history. "America's prophet of Keynesianism" (Miller 2002, 603)[17] emerged out of the Wisconsin Institutionalist tradition. After nearly twenty years as a professor at the University of Minnesota specializing in business cycles, "Hansen became an enthusiastic follower of Keynes and spread the new gospel with verve and energy in many books and innumerable papers and lectures" (Habeler 1976, 11).[18] This was not an inevitable or obvious outcome. William Barber (1987) documented Hansen's thinking on business cycles in the 1920s, which though it shared some features with what would become Keynesianism, was distinctly different and somewhat hostile to Keynes' positions at the time. Even after their meeting in 1934, at the American Political Economy Club in New York, Hansen remained highly skeptical of Keynes' theories on expenditures and debt. In 1936, Hansen wrote two reviews of Keynes' *General Theory*. One was highly critical and the second generally neutral. Yet, Haberler wrote that "when Hansen arrived at Harvard and started his famous Fiscal Policy Seminar with John H. Williams [in Fall 1937], he had changed his mind on Keynes' *General Theory*. Precisely how this

[16] Salant's file, "Harvard University: Fiscal Policy Seminar, Fiftieth Anniversary Celebration, April 25, 1988," in his papers deposited with the Harry S. Truman Library contains organizing correspondence, copies of the seminar's schedule, and a list of speakers from 1937 through 1956. Also included are copies of various published papers by Williams and Hansen. Unfortunately, the folder does not contain Salant's speech.
[17] "The American Keynes" is the title given to the chapter on Alvin Hansen in Briet and Ransom's textbook, *The Academic Scribblers* (1988).
[18] Hansen received his PhD in Economics from the University of Wisconsin with a dissertation on business cycles completed under the supervision of John R. Commons. On Hansen's life, see Barber (1987), Haberler (1976), Miller (2002), and Musgrave (1976). On Hansen's economic theory, see Barber (1987), Mehrling (1998b), and Tobin (1976). On Hansen in relation to Samuelson, see Backhouse (2017).

sudden conversion had come about I do not know" (1976, 11). Williams viewed that he was "personally responsible for bringing Alvin Hansen to Harvard in 1937" at which time Hansen "was already widely known as the leading disciple of John Maynard Keynes" (1976, 8).[19]

Backhouse (2017) attributed much of the "conversion myth" to Samuelson, who propagated it as context for his own intellectual development. Perry Mehrling made a similar point that "the historical usefulness of the conversion myth must also be admitted" (1997, 131). As Backhouse explained, "by the time he came to Harvard, Hansen had accepted some of the ideas usually associated with Keynes, but this was hardly a conversion, for he was gradually integrating Keynesian ideas into a theory of the business cycle that had been evolving since the beginning of the 1920s" (2017, 250). Indeed, as late as December 1938, in his presidential address to the American Economic Association, Hansen was still arguing, contrary to Keynes, that the under-employment of the 1930s was caused by external forces, by a slowdown of economic progress which could be explained by low technological innovation, weak population growth, and the closing of the frontier (Hansen 1939, 4).

The next year, however, marked a significant change for Hansen in terms of policy prescriptions (Musgrave 1988; Tobin 1976). The testimonies of Hansen and Currie before the Temporary National Economic Committee (TNEC) have been retrospectively identified as the coming-out party for Keynesian economics in the U.S. policy setting (Musgrave 1988, 3), "a showcase for Keynesian economics" (Stein 1969).[20] The Hansen testimony helped to shift attention "from market power as the cause of depression to the failure of the financial system to equilibrate saving and investment" (Backhouse, 2017, 382). The solution was to be found in a radical transformation of the objectives and uses of public finance. In this, Musgrave identified Hansen's *Fiscal Policy and Business Cycles* as a turning point. Musgrave liked to quote a programmatic statement from Hansen: "There is thus emerging a new aim of fiscal policy, vigorously assailed by some and staunchly defended by others — the aim of ensuring the full

[19] This statement by Williams is almost certainly due to mistaken memory. Most studies of Hansen date his transition to Keynesianism to some short time after his arrival at Harvard, including Musgrave (1976).

[20] Currie's position as a New Dealer and early Keynesian has been explored by Sandilands (1990). Currie seems to have had little influence on Musgrave. As evidence, we note Musgrave's disinclination to cite Currie, and Currie's marginalization in reminiscences such as the one reproduced here. Currie left academia at the start of Musgrave's career to focus on policy making in Washington, D.C. His work was quite different than Musgrave's public finance approach to fiscal policy. In addition, it seems that Musgrave and Currie never developed a strong friendship, despite having worked together in Colombia in 1949. Musgrave wrote "he was not an easy person to know, leaving a distance in his relation to others, especially to a young assistant such as myself" (Musgrave to R.J. Sandilands, 7 June 1999, RAM Papers Box 3).

employment of the factors of production. This policy involves greatly enlarged governmental expenditures" (Hansen 1941, 117). In that respect, Hansen and his followers could be labeled as Keynesians, even if they did not adhere to all the ideas in Keynes' *General Theory*.

Whether myth or fact, the conversion controversy provides an interesting insight into the first three years of the Fiscal Policy Seminar – the years which have been identified as pivotal for Hansen's thinking on business cycles (e.g., Tobin 1976, 32). Barber credited the Fiscal Policy Seminar as a leading "factor contributing to the shift in Hansen's analytic orientation" between 1936 and 1938 (1987, 200). Musgrave makes a similar point that

> It was during this period [1936 – 1937] that his [Hansen's] views on macroeconomics underwent a profound change. The depression had reached unexpected depth and the appearance of Keynes' *General Theory* in 1936 had opened new vistas. Hansen's early review of the work (1936) had been less critical than most, although far from enthusiastic, as yet failing to recognize the fundamental importance that the new framework was to achieve. But his breakthrough to the new perspective came soon thereafter and matured in the context of the Fiscal Policy Seminar. (Musgrave 1976, 4)

Hansen's evolving ideas on fiscal policy, business cycles, and Keynes – and as captured in the debate over his conversion and attempts to precisely date it – is representative of the "intellectual excitement" and "the memorable intellectual atmosphere" of the seminar (Musgrave 1988).

The seminar operated as a laboratory and was designed to push participants to produce new ideas. Samuelson wrote two important papers as a result of the seminar on multipliers (Samuelson 1939). Hansen and Williams both also used the seminar to hone their economic papers and arguments. Williams, in his annual report to the president of Harvard, wrote of 1937 – 1938 that "out of this year's work perhaps some four or five articles in leading journals are like to materialize. Some have already been accepted.".[21] In addition, Williams put together a collected volume on fiscal policy based on the seminar. Hansen's work for the seminar on "Fiscal Policy in Relation to the Business Cycle and Chronic Unemployment" became *Fiscal Policy and Business Cycles* (1941). For Musgrave, "the memorable intellectual atmosphere" produced a marked shift on his own thinking on public finance, pulling him away from the German approach of his university studies to a much more 'American' – e.g., pragmatic and macro policy focused – approach. Perhaps better than anywhere else, this shift is captured in his ruminations for the fiftieth anniversary.

[21] Collier's *Economics in the Rearview Mirror*: "Harvard Economics. Hansen and Williams Fiscal Seminar, 1937 – 1944." http://www.irwincollier.com/harvard-economics-hansen-and-williams-fiscal-seminar-1937-1944/#FPS37-38.

Musgrave and the Fiscal Policy Seminar

Musgrave was on hand to witness the founding of the Fiscal Policy Seminar during the fall semester of 1937. He had recently completed his dissertation, *The Theory of Public Finance and the Concept of 'Burden of Taxation'*, under the supervision of Harold Hitchings Burbank and was serving as an instructor in the economics department.[22] Except for a brief stint at the University of Rochester when he first came to the United States in 1933, Musgrave's early education had been completed at the University of Munich (1930) and the University of Heidelberg (1931 – 1933). The latter played the largest role, and was where Musgrave earned the German equivalent of a master's degree. His education at Heidelberg was very much in the continental-marginalist public finance tradition defined by Adolph Wagner, Emil Sax, Knut Wicksell and Erik Lindahl (Buchanan and Musgrave 1999). Musgrave's doctoral dissertation contrasted different approaches to the conceptualization of the state and attempted to calculate the *net* benefit from government services. The paper published out of the dissertation was both a critique and extension of Lindahl's work on the voluntary exchange theory of optimal public goods provision (Musgrave 1939a); it laid the groundwork for Samuelson's classic contribution to the literature on public goods (1954).

Musgrave's public finance background was thus radically different than that of Hansen, whose experience came from the American Institutionalist tradition which emphasized pragmatism, historical trends, and activist policy-making (Johnson 2015). Musgrave found the Fiscal Policy Seminar eye opening: "For me this was quite a new perspective on the role to be played by the fiscal system, as my undergraduate tradition, before I came to the U.S., had been with the Wicksell-Lindahl type of fiscal analysis" (Musgrave 1988, 3). Twice during the first year, Musgrave presented to the seminar, both on topics pushing him in a new direction, away from his European roots (see Table 1). Over the first fifteen years of the seminar, Musgrave would speak ten times, while variously employed by Harvard University, the Federal Reserve Board, Swarthmore College, and the University of Michigan (see Table 1).

[22] Musgrave's doctoral work with Burbank added little to his intellectual development. Burbank (1887 – 1951) had received his doctoral degree in economics at Harvard under the supervision of the classically orthodox Charles Bullock. Burbank's publication record was extremely thin, even for the period. A long time professor of the department, Burbank served as department chair from 1927 to 1938. Burbank is perhaps best remembered for attempting to thwart Samuelson's career, at least according to Samuelson (Backhouse, 2017).

Table 1. Musgrave's Contributions to the Fiscal Policy Seminar, 1937 – 1953

Date	Topic
October 18, 1937	The Twentieth Century Fund Report on Facing the Tax Problem
February 28, 1938	Limits in Public Debt and Taxation
October 28, 1940	Report of the Canadian Royal Commission on Dominion Provincial Relations
November 25, 1940	The Savings-Investment Problem Re-examined (with Benjamin H. Higgins)
March 12, 1943	The Revenue Bill of 1943
February 11, 1946	Federal Tax Economy
March 24, 1947	Debt Management
December 1, 1947	Built-in Budget Flexibility
October 15, 1951	Current German Fiscal Problems
March 2, 1953	Multiple Budget Theory

Before his participation in the seminar, Musgrave had little appreciation for Keynesian fiscal policy. He had been introduced to Keynes' ideas as a student at Heidelberg through Jacob Marschak's lectures on the *Treatise on Money* in 1931. However, by his own account, he did not get much out of it (Musgrave 1997). While at Heidelberg, Musgrave wrote a seminar paper about taxes and the business cycle which shared the "conventional conclusion that budget policy has little to offer in smoothing the cycle" (Musgrave 1983, 9). As a graduate student at Harvard, he listened to Haberler's "constructive critiques" of Keynes' theory without any particular interest (Musgrave 1997, 66). And although he referred to *The General Theory* in passim, Musgrave did not consider the stabilization role of fiscal instruments in his PhD thesis (Musgrave 1986, viii). Though 'fiscal policy' would also have sounded new to American-trained public finance specialists, it was doubly so for Musgrave coming out of the Continental tradition.

On October 18, 1937, Musgrave discussed "The Twentieth Century Fund Report on Facing the Tax Problem" by Carl Shoup, Roy Blough and Mabel Newcomer.[23] The report-turned-book

[23] Blough was in the Wisconsin Institutional tradition, having completed his PhD under Harold Groves in 1927. Shoup and Newcomer were Columbia Institutionalists and specialists in public finance. All three had worked for various New Deal programs in Washington throughout the 1930s. Shoup was another one of Jacob Viner's 'freshman brain trust.'

aimed to describe the current federal, state, and local tax systems in the United States and presented 102 general and 50 specific suggestions for reforms. As a fairly typical Institutional treatment of the tax system, it is unlikely that Musgrave was inspired to break much new ground in his analysis. His second presentation suggests a different story. On February 28, 1938 Musgrave addressed "Limits in Public Debt and Taxation." A subsequent paper, Musgrave (1939b), dealt with the arguments in favor and against the separation of capital and current expenditures budgets. Musgrave (1939b) acknowledged a debt to Hansen from "several conversations." However, since no record of that period exists in Musgrave's papers, we cannot unequivocally state that the published paper was related to the second presentation at the Fiscal Policy Seminar.

While Musgrave's position on Keynes remained murky throughout the first two years of the seminar, by 1940 we can see a shift in Musgrave's interest. Beginning that year, most of Musgrave's seminar presentations existed at the intersection of his practical policy work and his tentative development of a new Keynesian approach to public finance. Musgrave's joint presentation with Benjamin H. Higgins[24] on the "Saving-Investment Problem" in November 1940 likely led to the co-authored paper "Deficit Finance -- The Case examined" published in the Yearbook of the Graduate School of Public Administration in 1941. The 70-page, non-technical survey of the recent literature on fiscal policy extensively discussed the ways in which deficit funded public expenditures had been used in the 1930s to raise employment and to provide relief. Higgins and Musgrave contemplated the role of the multiplier, the accelerator, and other mechanisms through which systematic compensatory finance, or merely pump-priming, could help speed recovery. While they avoided taking a strong stance, Higgins and Musgrave considered how different types of public expenditures were more or less suited for fiscal policy, and how their mode of funding (debt, taxation, or paper money) would impact the private sector. Hansen's secular stagnation hypothesis still cast a long shadow over their vision of the economy.

Fiscal policy gained more traction with economists during the Second World War. The problem of financing the war brought significant challenges, as the deficit-to-GDP ratio quickly climbed from less than five percent to over twenty-five percent. Though responding with a vast expansion in the income tax base and a tax on corporate excess profits, it was clear that deficits

[24] Higgins was a young Canadian economist who took an MSc at the London School of Economics before writing a PhD under the supervision of Hansen at the University of Minnesota. Higgins followed Hansen to Harvard as a research assistant (Mackie 2001).

would become the norm. Musgrave's remarks published here – particularly on 'light' taxes – set the scene for the financial challenges the U.S. would face over the next decade and illustrated how the seminar's ideas translated into government action. In fact, "the seminar [during the war] experienced somewhat of a reincarnation in the weekly Washington sessions of the Federal Reserve Board, arranged by Alvin Hansen, Seymour Harris, Gottfried Haberler, and other members of the Harvard group who were then in Washington" (Musgrave 1988).

The war also stimulated others to take a fresh look at the ideas of Keynes and Hansen (see Colander 1984). Abba Lerner proposed a version of Keynesian fiscal mechanics under the label of "functional finance." Though functional finance became commonplace Keynesian policy in the 1960s, its first appearance generated uproar among economists, not the least from Musgrave (see Musgrave's discussion on Tax vs. Expenditure Changes here; see also Colander 2008). Lerner put forward the idea that government spending and tax reductions were alternative modes of raising the level of employment. This idea eventually led to the Kennedy tax cut of 1964. The radical corollary drawn by Lerner was that "the purpose of taxation is never to raise money but to leave less in the hands of the taxpayer" (Lerner 1944, 307).[25] Stein argued, "the chief policy implication of the progress of fiscal theory during the war years was to focus economists' attention more on taxation as a variable instrument of stabilization policy. Probably the clearest and most influential exposition of this point was Professor Abba Lerner's theory of 'functional finance'…with its insistence that the function of taxation was to restrain private expenditures, and that taxes should therefore never be higher than was necessary to hold total spending to a non-inflationary rate" (1969, 181).

For Musgrave who had specialized in public finance, Lerner's interpretation of the role of taxation was too narrow (Musgrave 1983, 10; 2013, 126-8). Taxation served multiple functions in a democratic society, guaranteeing full employment and stabilizing the price level were only two of them. In 1947, Musgrave would identify three functions to public revenues and expenditures policies: besides the traditional "service" and "redistribution" functions, he allowed a third,

[25] Lerner's (1943) "functional finance" was a groundbreaking contribution that was hotly discussed in the economics literature for the next decade. Samuelson declared in his eulogy for Lerner that "no economist can be the same after reading Lerner's Functional Finance" (1964). Rather than a synthesis of Hansen and Keynes, functional finance was a sharp analysis of the implication of Keynes' *Theory* for fiscal policy—policy implications that Keynes did not develop himself. We know Lerner converted to Keynesianism before Hansen. He is seen by commentators as someone who exposed with great clarity the Keynesian logic, already evident in his 1936 paper 'Mr. Keynes' 'General Theory of Employment, Interest and Money.' Lerner had trained in the new microeconomic equilibrium theory at London School of Economics, a very different starting point than the institutionalist business-cycle approach of Hansen.

"compensatory" role of the public budget to serve as an "instrument of economic control" (Musgrave 1948a, 383). Musgrave spent the next decade composing a *Theory of Public Finance* (1959) which integrated these three functions, while keeping their different rationales for expenditures and taxation policies conceptually separate. The title of Musgrave's March 1953 presentation suggests that his synthetic framework was discussed at the Fiscal Policy Seminar.[26]

Lerner's paper on "Functional finance and the Federal Debt" (1943, 43-45) prompted Musgrave and Evsey Domar to write "Proportional Income Taxation and Risk-Taking" (1944), which remains Musgrave's most-cited paper.[27] Domar was another student of Hansen and was Musgrave's colleague at the Federal Reserve during the war. Worried about the secular decline of investment opportunities, Domar and Musgrave showed that even if the income tax were to become a permanent feature of the American economy, it did not necessarily curtail risky investments. If income was taxed but no loss offset was possible, the Treasury would only share the yield, but not the losses, thereby reducing the incentive to make (risky) investments. Following Lerner, Domar and Musgrave argued that under a rule of complete offset, the Treasury would share the risk with the private sector and could thus encourage firms to make more risky investments. Moreover, Domar and Musgrave noted that a rule of complete offset, which allowed firms to carry forward or backward their tax liabilities, would be conducive to "cyclical stability" by bringing in more revenues in times of prosperity and providing net reimbursements during depressions.

The prospect of deflation induced by the demobilization loomed large in fiscal policy discussions during the war. With strong post-war growth, however, the narrative of secular stagnation vanished. Management of the large public debt and the "built-in flexibility" of the revenues-expenditures system were key concerns of Musgrave which led to two presentations at the Fiscal Policy Seminar in 1947, as well as several publications (Musgrave 1948a, 1948b, 1948c, 1949). The absence of archival documents related to Musgrave's career makes it increasingly difficult to trace the specific impact of Hansen and the Fiscal Policy Seminar on Musgrave's thinking in the 1950s and 1960s. However, it is clear that the seminar continued to provide an

[26] Though Musgrave's *Theory* was published in 1959, the book might have been quite advanced by 1953. A report from the University of Michigan in 1954 mentions that "Richard A. Musgrave is currently completing a volume devoted to a re-evaluation and synthesis of existing theories of monetary and fiscal policies." S*urvey of the behavioral sciences. Report of the faculty committee and Report of the Visiting Committee*. Ann Arbor, Michigan, University of Michigan. July 1954 1954, p. 28. The first published text delineating Musgrave's three-branch framework is a paper from 1957 titled "A Multiple Theory of Budget Determination."
[27] See Scitovsky (1987, 1561).

important vehicle for Musgrave to explore ideas and receive feedback. For example, in the summer of 1951, Hansen and Musgrave led a team of economists, which included Walter Heller, on a fiscal expertise mission to Germany. They wrote a report for the Minister of Finance on the challenges of public finance in the Federal Republic of Germany. The report was submitted in September 1951. The next month, Musgrave made a presentation in the Fiscal Policy Seminar on "Current German Fiscal Problems."

Together with Lloyd Metzler, Evsey Domar, Benjamin Higgins and Paul Samuelson — all former students of the Fiscal Policy Seminar — Musgrave edited a Festschrift for Hansen's 60th birthday: *Income, Employment and Public Policy. Essays in Honor of Alvin H. Hansen* (1948).[28] Hansen would later return the favor and contribute a chapter in a Festschrift in honor of Musgrave (1974). Hansen embodied the pragmatic policy-oriented American academic that Musgrave wanted to become. Much of this spirit is captured in the remarks published here, as Musgrave emphasized the links between the ideas developed in the seminar and the policies eventually put in place such as the corporate tax integration and the reforms to the Social Security System. A few years before Hansen died, Musgrave stated what he admired in Midwestern American intellectuals like Harold Groves and Alvin Hansen. It was their "positive and courageous approach to the solution of public policy problems—the kind of attitude which expressed [their] Midwestern progressive faith that ultimately things can be done reasonably" (Musgrave 1972).[29]

Musgrave as a Historian of Economic Thought

After his official retirement from Harvard in 1981, Musgrave wrote many pieces on the history of public finance theory and policy. Throughout the 1980s and 1990s, as he was invited to commemorate an anniversary, or on the occasion of receiving an award, he contributed to writing the history of the field to which he had dedicated his career (see Sturn 2016). Although Musgrave was no historian by training, he had an interest in the history of economics which was not unusual among the broadly trained economists of his generation. After all, the two members of his dissertation evaluation committee were Burbank, who had written his dissertation on the history of taxation, and Joseph Schumpeter, whose lectures in history of economic thought were a

[28] The 16-chapter volume does not name a specific editor. See the Musgrave-Samuelson correspondence in the Samuelson Papers, Box 54.
[29] On Harold Groves' approach to public finance, see Johnson (2015). On the shared positive vision of the public sector between Hansen and Musgrave, see Desmarais-Tremblay (2017b, 426-33).

“highlight” of Musgrave’s graduate education at Harvard (Musgrave 1992, 106). Both his dissertation and his *Theory of Public Finance* contained chapters dealing with the history of fiscal theory (Musgrave 1937 and 1959). Additionally, in the 1950s, while working on his *Theory*, Musgrave edited with the British economist Alan Peacock a collection of extracts of classic European texts in the theory of Public Finance, most of which had not previously been accessible to the English-only reading public.

The most important piece of history of economic thought written by Musgrave is his 1985 entry on the “History of Fiscal Doctrine” published in the first volume of the *Handbook of Public Economics*. Over 50 pages in length, Musgrave surveyed the developments of five key themes from the eighteenth century to the end of the twentieth century: theory of taxation, equity in taxation, efficiency in taxation, shifting and incidence, and macro aspects and fiscal policy. The last section overlaps partly with the narrative of “The Fiscal Policy Seminar: Its Early Stages.” Fiscal policy was a recent addition to the field of public finance, and Musgrave witnessed and participated in its developments from the beginning. With a career spanning more than 70 years, Musgrave became, on his own account, a “historian by osmosis” (Musgrave 1983a).

Musgrave’s narratives on the history of fiscal doctrine often follow his own personal migration from Europe to America. Their structure mimics the structure of his *Theory of Public Finance* in three branches: allocation, distribution, and stabilization. Yet, the narratives are also informed by epistemological commitments. Musgrave was very influenced by Max Weber during his education in Germany, and he saw the world, including the world of economists, as charged with values. Musgrave inherited from Schumpeter the idea that the “initial vision” of economists is subject to an “ideological” lens: “the questions which we pose and the projects which we undertake are chosen by us as members of our time and its value sets” (Musgrave, 1991, 124; 1992b, 109).

When writing on the history of public finance, Musgrave compared the state of theory and policies in the past to that of his present. These back-and-forth movements through time point to a feature of historiographic constructions: they can be more informative on the contemporary preoccupations of their authors than they are about the past. When Musgrave delivered his remarks on the Fiscal Policy Seminar in 1988, U.S. President Ronald Reagan had been in power for seven years. Economic policies in the 1970s had started to take a radically different direction from the liberal-interventionist policies championed by Musgrave. Musgrave regretted that his generation of positively minded fiscal economists had given way to a newer generation who did not trust governmental intervention: "[our] focus on market failure has now given way to a counter-offensive, as attention is directed at problems of public sector failure. ([Reference to Buchanan's *The Limits of Liberty* (1975]). The Hegelian pendulum has swung and history is on the march again, but with a reversed course" (Musgrave 1983b, 331; see also Musgrave 1985b, 383). One senses much more clearly in "The Fiscal Policy Seminar: Its Early Stages" than in these earlier works the intellectual loss that Musgrave felt was engendered by this shift.

In fiscal policy, the high point of the New Economics of active budgetary policy was, according to Musgrave, Heller's Economic Report to the President in 1962 and the ensuing tax cut passed in 1964. Musgrave was skeptical of the New Classical Macroeconomics that emerged in the 1980s and this is well reflected in the text here (see also Musgrave 1983; 1987; 1997b). He found both the rational expectations and Ricardian equivalence assumptions highly unrealistic, just as he had criticized the voluntary exchange theory of public goods in his youth. All three were too demanding for human cognitive capacities – "not all taxpayers have degrees from renowned institutions", scolds Musgrave in "The Fiscal Policy Seminar" (Musgrave 1988). The theories also denied the effectiveness of and the necessity for conducting active budgetary planning, whether it be for the allocation of social goods, or for macroeconomic stabilization. Concerning the second function of the fiscal state, income redistribution, Musgrave's comments about the 1941 income tax bill are overshadowed by the Reagan tax reform of 1986. The transformation of the income tax into a mass tax was the culmination of decades of advocacy by progressive economists, an intellectual lineage of which Musgrave was a proud heir (see Mehrotra 2003). In 1986, Musgrave approved the widening of the tax base, but he strongly objected to the reduction of the highest marginal rate which dropped from 70% to 28% in less than a decade (Musgrave 1987b). He takes up the issue again in "The Fiscal Policy Seminar" during his discussion of federal taxes and fiscal policy, claiming that "the most recent reform of 1986…has left me somewhat less euphoric than most of my friends" (Musgrave 1988). The problem was that while broadening the base was "all to the good," the flattening of the progression, particularly for high incomes, implied a fundamental shift in thinking about personal taxation, removing redistribution from its "*raison d'être*" (Musgrave 1988).

Conclusions

With age, Musgrave did not turn bitter, but since he disapproved of some currents in economic policy, he felt the need to remind the younger generations of economists that some ideals of economic justice were still worth fighting for, and that the tools of Keynesian fiscal policy were still effective means to secure economic stability and full employment. Musgrave emphasized this point in "The Fiscal Policy Seminar: Its Early Stages" – the "debate continues" he argued "with many of the issues first confronted in the early years of the Fiscal Policy Seminar still of vital concern" (Musgrave 1988). Past lessons were important for "it remains to be seen how the new ship will sail" (Musgrave 1988). The current generation and the next will "make up the jury to decide thereon" (Musgrave 1988).

Musgrave's remarks for the fiftieth anniversary of Harvard's Fiscal Policy Seminar fill an important gap between available archival documents, various published reminiscences, and analytical writings in the history of economic thought. As with many other autobiographical memoirs, Musgrave's statements put emphasis on events from his early adulthood (Weintraub 2005). Beyond the personal anecdotes, Musgrave's remarks also point to texts that were important at the time, with obvious attention to the work of colleagues who were dear to him. Yet, such contributions are important, as Perry Mehrling reminds us, because "though memoirs are often unreliable as records…and highly idiosyncratic as interpretations of facts, historians will also read them for insight into…contemporary participants" (1998, 920). This is certainly the case for Musgrave, whose remarks for the anniversary illuminate several important influences that shaped his work at the intersection of public finance and fiscal policy, including the evolving views of Hansen with regards to Keynes, the stabilization role of public finance in the macroeconomy, and the economic role of government (via Schumpeter, Lerner, and Haberler). The remarks are also interesting because they wrestle with how theory becomes practice and what causes shifts in practice over time. Musgrave on "The Fiscal Policy Seminar" considers the Kennedy and Reagan tax cuts, the role of public expenditures in periods of recession and periods of growth, and the practical implications of views on market and government failure in a way that is more intellectually personal – reflecting his views on the role of government and his individual values – than can be seen in his academic writings. Thus, the text reproduced here is not only important as a background for Musgrave's later work, but also in its own right as history of economic though and social commentary.

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