

Walter W. Heller and American Fiscal Policy

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My macroeconomics teachers

University of Minnesota

Walter Heller

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Four phases of American fiscal policy

1789 – 1914: Tax smoothing

1914 – 1945: Reacting to events

1946-1960: Crude Keynesianism

1961-2008: The Age of Heller

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1789 – 1914: Tax smoothing

- Keep tax revenue at roughly 3-5% of GDP (mostly through tariffs)
- Run deficits and borrow to fight wars, build internal improvements, pay pensions
- Run surpluses and pay off debt



1914 – 1945: Reacting to events

- Income tax: 1913
- World War I
- Government spending does not shrink during 1920s
- Great Depression
- World War II

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1946-1960: Crude Keynesianism

- Employment Act of 1946
- Spending as stabilization policy
 - Defense spending rises and falls counter-cyclically;
 - Keep stock of public works projects ready to go;
- Taxes are stable as percentage of GDP
 - High marginal tax rates



1961-2008: The Age of Heller



- Professor, University of Minnesota, 1946-1987
- Chair, Council of Economic Advisors, 1961-1965
- President of the American Economic Association, 1974

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Characteristics of Fiscal Policy in the Age of Heller

1. Goals
 - Minimize the GDP gap
 - Maximize the growth of potential GDP
2. Use tax policy to achieve both goals
3. Use government spending and transfers to address long-term problems; NOT stabilization



Phase 1: 1961-1981

- Tax policy as stabilization policy and tool to promote long-run growth
 - 1964 Tax cut
 - 1975 and 1978 Tax acts
- Spending: long run goals
 - Cold War
 - Poverty reduction
 - Structural unemployment



Phase 2: 1981-2001

- Monetary policy as primary source of stabilization policy
- Tax policy:
 - Emphasis on promoting long-run growth
 - minor role in stabilization policy



Phase 2: 1981-2001

- Spending: long run goals
 - Cold War
 - Transfer payments

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Phase 3: 2001-2008

- Monetary policy as primary source of stabilization policy
- Tax policy as stabilization policy and tool to promote long-run growth
 - 2001 and 2003 Tax acts
 - Economic Stimulus Act of 2008
- Spending: long run goals
 - War on Terror
 - Transfer payments



Where will we go from here?



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