Chapter 1

Fiscal Functions: An Overview*

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A. INTRODUCTION

In the United States economy of today, over 20 percent of GNP is purchased by government; total government expenditures including transfers equal 35 percent thereof and tax revenue absorbs over 30 percent of GNP. Though sizable, this government participation falls short of that in other developed economies, especially those in Western Europe, where the governmental share of economic activity is frequently over 50 percent. Beyond the budgetary function, public policy influ-

**Reader's Guide to Chapter 1:* This chapter is designed to give the general setting to the fiscal problem, thereby taking a sweeping view of the issues to be considered in detail later on. You may therefore be left with many questions. But don't worry. They will be cleared up (it is hoped) as you proceed.

ences the course of economic activity through monetary, regulatory, and other devices. Public enterprise also plays a major role in most European countries, though it is of limited importance in the United States. The modern "capitalist" economy is thus a thoroughly mixed system in which public and private sector forces interact in an integral fashion. The economic system, in fact, is neither public nor private, but involves a mix of both sectors.

Subject of Study

This book deals with the economics of the public sector as that sector operates in a mixed system. Its operation includes not only financing but has broad bearing on the level and allocation of resource use, the distribution of income, and the level of economic activity. Although our subject matter is traditionally referred to as public finance, the book thus deals with the real as well as the financial aspects of the problem. Moreover, we cannot deal with "public" economics only. Since the public sector operates in interaction with the private, both sectors enter the analysis. Not only do the effects of expenditure and tax policies depend upon the reaction of the private sector, but the need for fiscal measures is determined by how the private sector would perform in their absence.

Notwithstanding this broad view, we will not deal with the entire range of economic policy but limit ourselves to that part which operates through the *revenue* and *expenditure* measures of the public budget. Other aspects, such as the regulation of competition through the courts, the operation of public enterprise, and the conduct of monetary policy, are only minor budget items, but of great importance as instruments of economic policy. Yet, we will deal with them only where they are associated with the economics of budget policy. The term "public sector" as used here thus refers to the budgetary sector of public policy only.

Modes of Analysis

In an analysis of the public sector, various types of questions may be asked. They include the following:

1. What criteria should be applied when one is judging the merit of various budget policies?
2. What are the responses of the private sector to various fiscal measures, such as tax and expenditure changes?
3. What are the social, political, and historical forces which have shaped the present fiscal institutions and which have determined the formulation of contemporary fiscal policy?

Question 1 requires a "normative" perspective—i.e., a type of economic analysis that deals with how things *should* be done—and asks how the quality of fiscal institutions and policies can be evaluated and how their performance can be improved. The answer requires setting standards of "good" performance. Corresponding to the analysis of efficient behavior of households and firms in the private sector, defining such standards calls for a type of economics which is referred to as "welfare economics" in professional jargon. Its application to the public sector is more difficult, however, because the objectives of fiscal policy are not given but

must be determined through the political process. Moreover, objectives of efficiency in resource use must be supplemented by considerations of equity and distributional justice, thus enlarging the sphere of normative analysis.

Question 2 must be asked if the outcome of alternative policies is to be traced. If the merits of a corporation profits tax or of a sales tax are to be judged, one must know who will bear the final burden, the answer to which in turn depends on how the private sector responds to the imposition of such taxes. Or if aggregate demand is to be increased, one must know what the effects of the reduction in taxes or increase in public expenditures will be, effects which once more depend upon the magnitude and speed of responses by consumers and firms in the private sector. Analyzing the effects of fiscal measures thus involves what has been referred to as "positive" economics—i.e., the type of economic analysis which deals with predicting, on the basis of empirical analysis, how firms and consumers will respond to economic changes and with testing such predictions empirically.

Question 3 likewise involves a "positive" approach, asking in this case why the fiscal behavior of governments is what it is. This is not only a matter of economics but also includes a wide range of historical, political, and social factors. How do interest groups try to affect the fiscal process, and how do legislators respond to interest-group pressures? How are the fiscal preferences of voters determined by their income and their social and demographic characteristics, and how does the political process, in fact, serve to reflect their preferences?

Need for Public Sector

From the normative view, why is it that a public sector is required? If one starts with the premises generally accepted in our society that (1) the composition of output should be in line with the preferences of individual consumers and that (2) there is a preference for decentralized decision making, why may not the entire economy be left to the private sector? Or, putting it differently, why is it that in a supposedly private enterprise economy, a substantial part of the economy is subject to some form of government direction rather than left to the "invisible hand" of market forces?

In part, the prevalence of government may reflect the presence of political and social ideologies which depart from the premises of consumer choice and decentralized decision making. But this is only a minor part of the story. More important, there is the fact that the market mechanism alone cannot perform all economic functions. Public policy is needed to guide, correct, and supplement it in certain respects. It is important to realize this fact, since it implies that the proper size of the public sector is, to a significant degree, a technical rather than an ideological issue. A variety of reasons explain why such is the case, including the following:

1. The claim that the market mechanism leads to efficient resource use (i.e., produces what consumers want most and does so in the cheapest way) is based on the condition of competitive factor and product markets. Thus, there must be no obstacles to free entry and consumers and producers must have full market knowledge. Government regulation or other measures may be needed to secure these conditions.
2. They may also be needed where competition is inefficient due to decreasing cost.
3. More generally, the contractual arrangements and exchanges needed for mar-

ket operation cannot exist without the protection and enforcement of a governmentally provided legal structure.

4. Even if the legal structure is provided and barriers to competition are removed, the production or consumption characteristics of certain goods are such that they cannot be provided for through the market. Problems of "externalities" arise which lead to "market failure" and require correction by the public sector, either by way of budgetary provisions, subsidy, or tax penalty.

5. Social values may require adjustments in the distribution of income and wealth which results from the market system and from the transmission of property rights through inheritance.

6. The market system, especially in a highly developed financial economy, does not necessarily bring high employment, price level stability, and the socially desired rate of economic growth. Public policy is needed to secure these objectives. As the events of the eighties have shown, this is the case especially in an open economy subject to international repercussions.

7. Public and private points of view on the rate of discount used in the valuation of future (relative to present) consumption may differ.

As we will see later, items 4 through 6 are of particular importance in evaluating budget policy.

To argue that these limitations of the market mechanism call for corrective or compensating measures of public policy does not prove, of course, that any policy measure which is undertaken will in fact improve the performance of the economic system. Public policy, no less than private policy, can err and be inefficient, and the basic purpose of our study of public finance is precisely that of exploring how the effectiveness of policy formulation and application can be improved.

Major Functions

Although particular tax or expenditure measures affect the economy in many ways and may be designed to serve a variety of purposes, several more or less distinct policy objectives may be set forth. They include:

1. The provision for social goods, or the process by which total resource use is divided between private and social goods and by which the mix of social goods is chosen. This provision may be termed the *allocation function* of budget policy. Regulatory policies, which may also be considered a part of the allocation function, are not included here because they are not primarily a problem of budget policy.

2. Adjustment of the distribution of income and wealth to ensure conformance with what society considers a "fair" or "just" state of distribution, here referred to as the *distribution function*.

3. The use of budget policy as a means of maintaining high employment, a reasonable degree of price level stability, and an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payments. We refer to all these objectives as the *stabilization function*.

While these policy objectives differ, any one tax or expenditure measure is likely to affect more than one objective. As will be noted presently, the problem, therefore, is how to design budget policy so that the pursuit of one goal does not void that of another.

B. THE ALLOCATION FUNCTION

We begin with the allocation function and the proposition that certain goods—referred to here as *social,* or public, as distinct from *private* goods—cannot be provided for through the market system, i.e., by transactions between individual consumers and producers. In some cases the market fails entirely, while in others it can function only in an inefficient way. Why is this the case?

Social Goods and Market Failure

The basic reason for market failure in the provision of social goods is not that the need for such goods is felt collectively whereas that for private goods is felt individually. While peoples' preferences are influenced by their social environment, in the last resort wants and preferences are experienced by individuals and not by society as a whole. Moreover, both social and private goods are included in their preference maps. Just as I can rank my preferences among housing and backyard facilities, so I may also rank my preferences among my private yard and my use of public parks. Rather, the difference arises because the benefits to which social goods give rise are not limited to one particular consumer who purchases the good, as is the case for private goods, but become available to others as well.

If I consume a hamburger or wear a pair of shoes, these particular products will not be available to other individuals. My and their consumption stand in a rival relationship. But now consider measures to reduce air pollution. If a given improvement in air quality is obtained, the resulting gain will be available to all who breathe. In other words, consumption of such products by various individuals is "nonrival" in the sense that one person's partaking of benefits does not reduce the benefits available to others. This has important implications for how consumers behave and how the two types of goods are to be provided.

The market mechanism is well suited for the provision of private goods. It is based on exchange, and exchange can occur only where there is an exclusive title to the property which is to be exchanged. In fact, the market system may be viewed as a giant auction where consumers bid for products and producers sell to the highest bidders. Thus the market furnishes a signaling system whereby producers are guided by consumer demands. For goods such as hamburgers or pairs of shoes this is an efficient mechanism. Nothing is lost and much is gained when consumers are excluded unless they pay. Application of the exclusion principle tends to be an efficient solution.

But such is not the case with respect to social goods. Here it would be inefficient to exclude any one consumer from partaking in the benefits, since such participation does not reduce consumption by anyone else. The application of exclusion would thus be undesirable even if it were readily feasible. Given such conditions, the benefits from social goods are not vested in the property rights of particular individuals, and the market cannot function. With benefits available to all, consumers will not voluntarily offer payments to the suppliers of such goods. I will benefit as much from the consumption of others as from my own, and with thousands or millions of other consumers present, my payment will be only an insignificant part of the total. Hence, no voluntary payment is made, especially

where many consumers are involved. The linkage between producer and consumer is broken and the government must step in to provide for such goods.

A need for public provision may arise even in situations where consumption is rival, so that exclusion would be appropriate. Such is the case because exclusion may be impossible or prohibitively expensive. Thus, space on a crowded city intersection is scarce, but a mechanism of charging each passing car is hardly feasible. Once more, government must step in when the market cannot deal with the situation.

Public Provision for Social Goods

The problem, then, is how the government should determine how much of such goods is to be provided. Refusal of voluntary payment by consumers is not the basic difficulty. The problem could be solved readily if the task were merely one of sending the tax collector to consumers to whom the benefits of social goods accrue. But matters are not this simple. The difficulty lies in deciding the type and quality of a social good that should be supplied to begin with and how much a particular consumer should be asked to pay. It may be reasonable to rule that the individual should pay for the benefits received, as in the case of private goods, but this does not solve the problem; the difficulty lies in finding out how these benefits are valued by the recipient.

Just as individual consumers have no reason to offer voluntary payments to the private producer, so they have no reason to reveal to the government how highly they value the public service. If I am only one member in a large group of consumers, the total supply available to me is not affected significantly by my own contribution. Consumers have no reason to step forward and declare what the service is truly worth to them individually unless they are assured that others will do the same. Placing tax contributions on a voluntary basis would therefore be to no avail. People will prefer to enjoy as free riders what is provided by others. A different technique is needed by which the supply of social goods and the cost allocation thereof can be determined.

This is where the political process must enter the picture as a substitute for the market mechanism. Voting by ballot must be resorted to in place of voting by dollar bids. Since voters know that they will be subject to the voting decision (whether by simple majority or some other voting rule), they will find it in their interest to vote such that the outcome will fall closer to their own preferences. Decision making by voting becomes a substitute for preference revelation through the market, and the collection of cost shares thus decided upon must be implemented via the tax system. As shown later, taxation generates efficiency costs or deadweight losses which do not arise in a market for private goods. The result of the vote, moreover, will not please everyone but it can only hope to approximate an efficient solution. It will do so more or less perfectly, depending on the efficiency of the voting process and the homogeneity of the community's preferences in the matter.

National and Local Social Goods

Although social goods are available equally to those concerned, their benefits may be spatially limited. Thus, the benefits from national defense accrue nationwide

while those from streetlights are of concern only to local residents. This suggests that the nature of social goods has some interesting bearing on the issue of fiscal federalism—centralization or decentralization. As we will see later, a good case can be made for letting national public services be provided by national government and local public services by local government.[1]

Public Provision versus Public Production

Before considering how such public provision is to be arranged, we must draw a clear distinction between public *provision* for social goods, as the term is used here, and public *production*. These are two distinct and indeed unrelated concepts which should not be confused with one another.

Private goods may be produced and sold to private buyers either by private firms, as is normally done, or by public enterprises, such as public power and transportation authorities or the nationalized British coal industry. Social goods, such as spaceships or military hardware, similarly may be produced by private firms and sold to government; or they may be produced directly under public management, as are services rendered by civil servants or municipal enterprises. If we say that social goods are *provided* publicly, we mean that they are financed through the budget and made available free of direct charge. How they are *produced* does not matter. When looking at the public sector in the national accounts, we will see that the cost of such provision is divided about equally between compensation paid to public employees (whose output may be viewed as public production) and outputs purchased from private firms.[2] Public production of private goods which are then sold in the market plays only a very limited role in the U.S. system.

C. THE DISTRIBUTION FUNCTION

The allocation function, concerned with the provision of social goods, inevitably departs from the market process but nevertheless poses the type of problem with which economic analysis has traditionally been concerned, i.e., the efficient use of resources given a prevailing distribution of income and pattern of consumer preferences. The issue of distribution is more difficult to handle. Yet, distribution issues are a major (frequently *the* major) point of controversy in the budget debate. In particular, they play a key role in determining tax and transfer policies.

Determinants of Distribution

In the absence of policy adjustments, the distribution of income and wealth depends first of all on the distribution of factor endowments, including personal earnings abilities and the ownership of accumulated and inherited wealth. The distribution of income, based on this distribution of factor endowments, is then determined by the process of factor pricing, which in a competitive market sets factor returns equal to the value of the marginal product. The distribution of in-

[1] See p. 446.
[2] See p. 17.

come among individuals thus depends on their factor endowments and the prices which they fetch in the market.

This distribution of income may or may not be in line with what society considers fair or just. A distinction must be drawn between (1) the principle that efficient factor use requires factor inputs to be valued in line with competitive factor pricing and (2) the proposition that the distribution of income among families should be fixed by the market process. Principle 1 is an economic rule that must be observed if there is to be efficient use of resources, whether in a market economy or in a planned economy. Proposition 2 is a different matter. For one thing, factor prices as determined in the market may not correspond with the competitive norm. But even if all factor prices, including wages and other returns to personal services were determined competitively, the resulting pattern of distribution might not be acceptable. It typically involves a substantial degree of inequality, especially in the distribution of capital income; and though views on distributive justice differ, most would agree that some adjustments are required, if only to provide an adequate floor at the bottom of the scale. Such adjustments, however, may involve efficiency costs, and the costs must be allowed for in designing distribution policies.

How Income Should Be Distributed

Economics helps to determine what constitutes an efficient use of resources, based on a given pattern of distribution and effective demand. But there is the further question of what constitutes a fair or just state of distribution. Modern economic analysis has steered shy of this problem. The essence of modern welfare economics has been to define economic efficiency in terms which exclude distributional considerations. A change in economic conditions is said to be efficient (i.e., to improve welfare) if and only if the position of some person, say A, is improved without that of anyone else, including B and C, being worsened. This criterion, which may be qualified and amended in various ways, cannot be applied to a redistributional measure which by definition improves A's position at the expense of B's and C's. While the "someone gains, no one loses" rule has served well in assessing the efficiency of markets and of certain aspects of public policy, it contributes little to solving the basic social issues of fair distribution.

The answer to the question of fair distribution involves considerations of social philosophy and value judgment. Philosophers have come up with a variety of answers, including the view that persons have the right to the fruits derived from their particular endowments, that distribution should be arranged so as to maximize total happiness or satisfaction, and that distribution should meet certain standards of equity, which, in a limiting case, may be egalitarian. The choice among these criteria is not simple, nor is it easy to translate any one criterion into the corresponding "correct" pattern of distribution. We will encounter these difficulties when dealing with redistribution policy again in interpreting the widely accepted proposition that people should be taxed in line with their "ability to pay."

There are two major problems involved in the translation of a justice rule into an actual state of income distribution. First, it is difficult or impossible to compare the levels of utility which various individuals derive from their income. There is no simple way of adding up utilities, so that criteria based on such comparisons are not operational. This limitation has led people to think in terms of social evaluation

rather than subjective utility measurement. The other difficulty arises from the fact that the size of the pie which is available for distribution is not unrelated to how it is to be distributed. As noted before, redistribution policies may involve an efficiency cost which must be taken into account when one is deciding on the extent to which equity objectives should be pursued.

Notwithstanding these difficulties, however, distributional considerations remain an important issue of public policy. Attention appears to be shifting from the traditional concern with relative income positions, with the overall state of equality, and with excessive income at the top of the scale, to adequacy of income at the lower end. Thus the current discussion emphasizes prevention of poverty, setting what is considered a tolerable cutoff line or floor at the lower end rather than putting a ceiling at the top, as was once a major concern. This, as we will see, has important bearing on the design of tax structure.

Fiscal Instruments of Distribution Policy

Among various fiscal devices, redistribution is implemented most directly by (1) a tax-transfer scheme, combining progressive taxation of high-income with a subsidy to low-income households.[3] Alternatively, redistribution may be implemented by (2) progressive taxes used to finance public services, especially those such as public housing, which particularly benefit low-income households. Finally, redistribution may be achieved by (3) a combination of taxes on goods purchased largely by high-income consumers with subsidies to other goods which are used chiefly by low-income consumers.

In choosing among alternative policy instruments, allowance must be made for resulting deadweight losses or efficiency costs, i.e., costs which arise as consumer or producer choices are interfered with. Redistribution via an income tax–transfer mechanism has the advantage that it does not interfere with particular consumption or production choices. However, even this mechanism is not without its "efficiency cost," since the choice between income and leisure will be distorted. As we will see later, an optimal solution might call for a complex mix of taxes and subsidies. However, we will disregard this for the time being and think of the function of the distribution branch as being met by a set of direct income taxes and transfers.

While redistribution inevitably involves an efficiency cost, this consequence by itself establishes no conclusive case against such policies. It merely tells us that (1) any given distributional change should be accomplished at the least efficiency cost and (2) a need exists for balancing conflicting equity and efficiency objectives. An optimally conducted policy must allow for both concerns.

D. THE STABILIZATION FUNCTION

Having dealt with the role of budget policy in matters of allocation and distribution, we must now note its bearing on the macro performance of the economy, i.e.,

[3] A *progressive tax* is defined as one in which the ratio of tax to income rises with income.

on targets such as high employment, a reasonable degree of price level stability, soundness of foreign accounts, and an acceptable rate of economic growth.

Need for Stabilization Policy

Achievement of these targets does not come about automatically but requires policy guidance. Without it, the economy tends to be subject to substantial fluctuations and may suffer from sustained periods of unemployment or inflation. To make matters worse, unemployment and inflation—as we have painfully learned in the 1970s—may exist at the same time. With growing international interdependence, forces of instability may be transmitted from one country to another, which further complicates the problem.

The overall level of employment and prices in the economy depends upon the level of aggregate demand, relative to potential or capacity output valued at prevailing prices. The level of demand is a function of the spending decisions of millions of consumers, corporate managers, financial investors, and unincorporated operators. These decisions in turn depend upon many factors, such as past and present income, wealth position, credit availability, and expectations. In any one period, the level of expenditures may be insufficient to secure full employment of labor and other resources. For various reasons, including the fact that wages and prices tend to be downward rigid, there is no ready mechanism by which such employment will restore itself automatically. Expansionary measures to raise aggregate demand are then needed. At other times, expenditures may exceed the available output under conditions of high employment and thus may cause inflation. In such situations, restrictive measures are needed to reduce demand. Furthermore, just as deficient demand may generate further deficiency, so may an increase in prices generate a further price rise, leading to renewed inflation. In neither case is there an automatic adjustment process which ensures that the economy is promptly returned to high employment and stability. Changing expectations introduce a dynamic force which may prove a source of growth as well as of system instability and decline.

Instruments of Stabilization Policy

Policy instruments available to deal with these problems involve both monetary and fiscal measures, and their interaction is of great importance.

Monetary Instruments While the market mechanism, if it functions well, may be relied upon to determine the allocation of resources among private goods, it cannot by itself regulate the proper money supply. As Walter Bagehot pointed out a century ago, "Money does not control itself." If left to its own devices, the banking system will not generate precisely that money supply which is compatible with economic stability, but will—in response to the credit demands of the market—accentuate prevailing tendencies to fluctuation. Therefore, the money supply must be controlled by the central banking system and be adjusted to the needs of the economy in terms of both short-run stability and longer-run growth. Monetary policy—including the devices of reserve requirements, discount rates, and open market policy—is thus an indispensable component of stabilization policy. Expanding the money supply will tend to increase liquidity, reduce interest rates, and thereby increase the level of demand, with monetary restriction working in the opposite direction.

Fiscal Instruments Fiscal policy as well has a direct bearing on the level of demand. Raising public expenditures will be expansionary as demand is increased, initially in the public sector and then transmitted to the private market. Tax reduction, similarly, may be expansionary as taxpayers are left with a higher level of income and may be expected to spend more. Changes in the level of deficit thus play an important role. At the same time, much will depend on how the deficit is financed. If accompanied by an easy monetary policy, the expansionary effects of deficit finance will be greater as the deficit can be met by increased credit. If matched by tight money, placing the additional debt will call for an increase in the rate of interest and thus have a restrictive effect on market transactions. Moreover, effects upon international capital flows, as the American economy has seen in the 1980s, are again of major importance.

E. COORDINATION OF BUDGET FUNCTIONS

As noted before, budget policy involves a number of distinct objectives, but these overlap in practice, thereby complicating an efficient policy design, i.e., a design which does justice to its diverse goals.

Suppose first that the public wishes an increased supply of public services. Increased taxes are needed to pay for these, which leads in turn, to the question of how they should be distributed. Depending on what taxes are used, taxation may well change the distribution of income that remains available for private use. Hence some voters may favor (reject) the proposed change in public services because they like (dislike) the associated change in distribution rather than because they like (or dislike) the public service. Ideally, the two issues would be separated: Society would provide for what is considered a fair state of distribution and then adjust the financing of public services in line with the benefits which taxpayers derive therefrom. Because this two-step procedure is difficult to accomplish, decisions on the provision of public services tend to be mixed with and distorted by distributional considerations. Similar reasoning also applies in the reverse direction, when the supply of public services and hence taxes are to be reduced.

Next suppose that society wishes to shift distribution in the direction of greater (lesser) equality. Such a shift may be accomplished by using progressive (regressive) taxes to finance transfers to lower (higher) incomes. But it may also be done by increasing (reducing) the supply of public services of particular value to low (high) income groups. This, however, interferes with the pattern of public services which consumers want to obtain at a given distribution of income. Once more, one policy objective may be implemented such that it interferes with another.

Finally, consider the role of fiscal policy in stabilization. Suppose that a more (less) expansionary policy is needed. This may be accomplished by raising (lowering) outlays on public services or by reducing (raising) the level of taxation. In the former case the allocation objective of fiscal policy is interfered with, whereas in the latter it is not. However, in the latter case there is the further question of how changes in the level of taxation are to be implemented. For stabilization measures to be neutral regarding both allocation and distribution goals, proportional changes in the level of tax rates might offer the appropriate solution.

As we will see in the course of this study, there are many exceptions which

call for qualification of the simple rules just given. Nevertheless, it is important to keep in mind that there are distinct policy objectives and policy should try to minimize conflicts among them.

F. SUMMARY

This chapter, being itself in the form of a summary, can hardly be summarized further. However, the main ideas presented are these:

1. Modern so-called capitalist economies are in fact mixed economies, with one-third or more of economic activity occurring in the public sector.
2. For purposes of this book, the term public sector is used to refer to the parts of governmental economic policy which find their expression in budgetary (expenditure and revenue) measures.
3. Three major types of budgetary activity are distinguished: namely, (*a*) the public provision of certain goods and services, referred to as "social goods"; (*b*) adjustment in the state of distribution of income and wealth; and (*c*) measures to deal with unemployment, inflation, and inadequate economic growth.
4. In discussing the provision of social goods (the allocation function), reference is made to goods and services which must be paid for through budgetary finance. Whether the production of these goods is by a public agency or whether the goods and services are purchased from private firms is a different matter.
5. Provision for social goods poses problems which differ from those which arise in connection with private goods. Since social goods are nonrival in consumption, consumer preferences are not revealed by consumer bidding in the market. Therefore a political process and budgetary finance are required.
6. The pattern of distribution which results from the existing pattern of factor endowments and their sale in the market is not necessarily one which society considers as fair. Distributional adjustments may be called for, and tax and transfer policies offer an effective means of implementing them, thus calling for a distribution function in budget policy.
7. Tax and expenditure policies affect aggregate demand and the level of economic activity. Their conduct has important bearing on maintaining economic stability, including high employment and control of inflation. Hence, the stabilization function enters as the third budgetary concern.
8. A major problem is how to conduct fiscal policy so that its major objects—including allocation, distribution, and stabilization aspects—can be met at the same time.

FURTHER READINGS

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