

At the present time, the type of fiscal policy decisions that face economic policymakers appear to be quite conventional, involving restraint on civilian expenditures and otherwise dampening any latent inflationary pressures resulting from the military buildup. Assuming successful resolution of the Vietnam situation in the near future, the type of longer run fiscal policy decisions that would be facing the Nation appear to be more pleasant ones. These may involve primarily choices among alternative methods of tax reform and reduction. Tax reductions, under those conditions of stable or declining defense spending, could both assist in achieving a maximum employment economy and also be possible because of a rapidly rising level of GNP.

At the margin, of course, the choice may be somewhat more difficult, involving balancing the desirability of providing additional Government services against the benefits of a larger private sector of the economy. Table 15 indicates some of the possible alternative methods of tax reduction. Possible expenditure increases are dealt with subsequently.

Table 15 also lists a few of the many factors that would need to be taken into account in selecting among possible tax changes. In good measure, the evaluation may be a question as to which are the dominant purposes of the tax action. Clearly, an increase in personal exemptions—which benefit the lower brackets more than proportionately—would tend to act as an income equalizer by reducing after-tax income inequality; a reduction in estate and gift taxes—which are borne primarily by the highest income groups—would have the reverse effect.

In contrast, a choice between excise reductions and cuts in the corporate income tax would involve judgments as to the extent that either of these taxes are shifted and of the ultimate incidence, technical questions which are still being debated in the public finance literature. An example of a more widely controversial question would be the relative emphasis on low-bracket individual income tax reductions versus high bracket and corporate tax reductions in an effort to increase the level of national output. Some contend that increasing the investment funds available to the high-saving individuals and corporations would be more effective in fostering economic growth; others, of course, contend that bolstering the purchasing power of consumers, particularly those in the low-income groups who spend virtually all of their available income, would provide the needed demand to generate rising employment and economic growth. This may also represent the type of issue that is never completely settled, but is continually present in determining the proper degree of emphasis between one or another at any given point in time.