tion for our children and to make sure that high-quality education is available to all. We see the need to improve and to rejuvenate urban areas and central cities, and to make major inroads on the problem of urban slums. We recognize the need to improve and modernize our transportation system. Our problem, indeed, will not be to search for possible uses of the resources which will become available when hostilities end, but to determine priorities among a host of pressing demands, private and public.

A conscious decision about the use of resources freed by a cessation of hostilities cannot be ducked. It does no good, for example, to say that this question is one which should be settled in the marketplace—that Government should leave the answer to private decisionmakers. When the demand for military goods and services is reduced, there is no automatic mechanism which provides for an increase in private spending to absorb the freed resources. Rather, the Federal Government must decide how to provide for an offsetting increase in demand—through tax reduction, through additional nonmilitary Federal spending, through easier monetary policies—or more likely, through some combination of all three. And our choice among these various instruments of economic policy will dictate the end uses to which the newly available resources are put. In short, the very steps we take to insure that the freed resources are utilized will determine how they are utilized.

The relative emphasis we place on tax reductions versus increases in the Federal budget, for example, quite obviously, will determine how the newly available resources will be split between the private and the public sector.

We cannot avoid making this choice, and to make it intelligently we need to assess the relative benefits which will accrue to the Nation from such alternative. And, in the case of tax reduction, we do not cut taxes in the abstract—we must choose some particular form of tax reduction. The kind of reductions which we adopt will determine, roughly at least, how the resources freed by lower military spending are divided between private consumption and private investment, and whether the additional private consumption is enjoyed by those with lower or higher incomes.

In similar vein, the more we rely on an easier monetary policy and lower interest rates to stimulate demand, the less we can employ tax reductions or expenditure increases. And since monetary policy tends to operate primarily on investment decisions, particularly housing investment, the relative emphasis we place on fiscal versus monetary policy will also help determine the specific uses of freed resources. Our options to choose between fiscal and monetary policy in a transition to lower defense expenditures are not, of course, unlimited. I do not believe a $20 billion reduction in defense outlays, for example, could or should be met solely by changes in monetary policy, accompanied by neither tax reductions nor other budget expenditure increases. But, on a more restricted scale, there is some range of choice between fiscal and monetary policy in providing a transition to lower defense expenditures.

We turn now to the overall transition problem. The specific combination of policy actions which would be appropriate in a period