TABLE 11.—*Possible post-Vietnam economic adjustment actions*

Category	Some alternatives	Policy issues
Tax reduction	(1) Across-the-board reductions in rates; (2) major reductions in lower brackets; (3) increased investment incentives; and (4) institution of a negative income tax.	Stabilization versus growth versus income redistribution objectives.
Monetary and financial policies.	(1) Changes in discount rates, reserve requirements, and Federal Reserve open market transactions; and (2) increases in Federal lending and loan guarantee operations.	Primarily a matter of promptness in timing; also question of appropriate monetary-fiscal mix.
Rapid expansions in Government programs.	(1) Those using similar resources—anti-missile-missile, supersonic transport, planetary, and other space exploration; and (2) conventional programs, such as unemployment compensation, public construction.	Questions include (1) transfer payments versus Government purchases; and (2) prompt utilization of specific defense resources versus concern with aggregate demand.
Longrun expansions in Government programs.	(1) Human-resource types: education training, health investment; (2) physical environment types: transportation, air and water polution control, housing; (3) technologic applications: oceanographic research, development and operations.	Primarily a matter of identification of longrun goals and objectives, then a question of identifying most economical and acceptable methods.
Federal aid to State and local governments.	(1) Expansion of existing program grants; (2) initiation of new grant programs (e.g. environment improvement); and (3) block grants, with few if any Federal "strings."	(1) The extent to which the States are to determine the areas to which they allocate Federal funds; (2) if the determination remains at the Federal level, the choice among program.
Aid to defense workers, companies, communities, and veterans.	(1) Rely on existing welfare programs and aggregate demand measures; and (2) institute specific adjustment and benefit programs.	(1) The extent to which defense companies, their workers, and communities, should be treated more generously than others affected by economic dislocation; (2) the desirability of World War II type of veterans' benefits, in view of recent expansion in education, training, and social services.

an important impact on income redistribution. It would also constitute a decision to emphasize consumption at the expense of investment, insofar as the lower income groups spend an above-average share of their income for current consumption items and save proportionately less.[79]

Conversely, if major attention were given to increasing tax incentives to business investment, this too would be more than a short-term policy to offset the deflationary impact of the military cutback; such action would also serve to reduce or slow down the rate of growth of the public sector and, also, to favor investment and a more rapid long-term rate of economic growth at the expense of current consumption and a quick increase in consumer living standards.

Similarly the institution of a negative income tax would constitute a rather fundamental change in the role of the Federal Government in relation to individual citizens, above and beyond any reduction in the government's cash take from the economy. Perhaps, an across-the-board reduction in income tax rates would be most neutral in terms of these other considerations: It would mean foregoing many of the other economic policy objectives; yet, its relative simplicity and neutrality would tend to shorten substantially the lead times involved in preparing detailed Executive Branch recommendations and in obtaining congressional approval.

2. *Monetary and Financial Policies.*—If there is any lesson to be learned from recent experience, it is the need to take prompt action to offset the economic impacts of large and abrupt shifts in military demand. The key question that would be faced is the appropriate mix of monetary and fiscal policies, such that

[79] For a more general analysis along these lines, see U.S. Congress, Joint Economic Committee, *U.S. Economic Growth to 1975: Potentials and Problems,* Washington, U.S. Government Printing Office, 1966, pp. 31–32.