

money which it would not otherwise have gotten, and the people being able to provide the money.

I suppose we would have accruals and wouldn't insist upon immediate payment, particularly in the first years of this. It would be a very neat little problem in incidents about which it would be difficult to be highly specific.

Mr. WESTON. But I think the distinction is that it is equity versus impact on the aggregate economy and regardless of impact on the aggregate economy, this is where you have to do your homework.

In equity terms we agree that the loophole should be plugged, and if in a period such as this you get more particular political momentum to close the loophole, I would argue for it because even after you did your homework, I would predict that there would still be arguments on both sides as to whether this is better than something else.

But if on equity grounds it is desirable and the present timing enables us to get it, then get it by all means, and for whatever reasons that can be mounted to get the requisite political support to get it adopted.

Incidentally, I would like to make two other brief comments on other aspects. One, with regard to the steepness of the yield curve and the criticism of the Fed, I wanted to comment that our previous discussion established that the level of the yield curve and the steepness is very heavily a function of expectations about price levels in the future. In turn, this is a function of all kinds of Government policies. If the Fed reasons that this steepness will persist regardless of whether they are operating in the long or short, aside from day-to-day perturbations that might take place, then I think the Fed has a strong basis for a position of saying, "Well, we won't attempt to reduce the steepness in the yield curve in view of what is causing it, because the cost would be introducing excess liquidity into the system in the view of potential strength in the economy later."

The other comment I wanted to make is that it seems to me, Professor Samuelson, on your comment that in a period of excess demand essentially related to Government deficits that cutting out marginal projects as a basis for reducing Government spending is valid only if you are implicitly assuming that the Government marginal projects have lower productivity than market marginal projects.

Otherwise, I see no valid economic basis for cutting. If Government marginal projects, that is, marginal with respect to other Government projects, are higher than the marginal projects in the private sector, the Government marginal projects should not be cut out.

Mr. SAMUELSON. I think you misunderstood my argument. Let's imagine, to make it simple, that the Government has for reasons of Vietnam an increased need for a larger fraction of our full employment resources. There are less of those full employment resources available to go around for non-Vietnam purposes. What shall be cut?

I think that the prudent private household will cut something from each of its budgets, something from recreation, something from tobacco, something even from education, excellent as I know it to be.

Similarly, society will want to cut from the marginal capital formation. We do this by means of tightening our capital markets.

Likewise, when total civilian resources are reduced, will the prudent social household contract its nonsocial public expenditures?