The economic philosophy of the administration for some years has been based upon the so-called full-employment fiscal dividend, the full-employment surplus, which postulated, in effect, is "Bear with us, gentlemen, while we run deficits for a few years, because, when we get to full employment so carefully have we calibrated this thing that we will have a nice fiscal dividend available even for sugarplum Heller plans and so on."

We now have, in the words of the first paragraph of the report of the Council of Economic Advisers, essentially full employment. We also have in this half of 1967 a deficit on the national income accounts system in excess of $5 billion. I stress the national income accounts system.

Mr. SCHULTZE. That is right.

Representative REUSS. Because there is no phony unfair strait-jacket imposed on you, you might question, "What in the world has gone wrong?"

Before you answer and because of the 10-minute limitation, I would like to give you my "two bits worth" on what has gone wrong, for your comment.

I think we have got our income system way out of whack.

I know from an important piece by our friend over here, that after tax, profit margins from manufacturing in 1966 were the highest in history. I know that the real, after tax workers' earnings in manufacturing had gone down in 1966, and this is the first time it has gone down since 1960.

I note that high-interest rates, which we have had, channel money away from poor people to wealthier people. That is the effect of who gets and who receives interest.

I note that our old classic tax loopholes are still with us and new ones are discovered: oil-depletion allowance; the scandalous pirating municipal industrial revenue bonds, which the Economic Report, to its credit, castigates, but nothing, despite my urging, is done about it; or any program, the capital gains, and so on.

So, I suggest to you for your comment, that the reason for this curious paradox is that there is in the Keynesian sense oversaving in a community; that people who can spend the money if it were in their jeans are not getting it in sufficient margin; and those who are getting it neither spend it because they already have several neckties and they do not spend it on investment because we are already investing at a very high rate. So, I think there is a fundamental imbalance there, and that is why I suggest the dream is not coming true.

Now, would you comment on (1) what happened to the great fiscal dividend of full employment and (2) what causes it?

If I am not right, what is your thesis?

Mr. SCHULTZE. I would say one obvious thing that has happened is fairly simply expressed in three words: "Ho Chi Minh." The second point——

Representative REUSS. Just a minute. If you are trying to tell me that our Vietnam budget is causing all the trouble, I wish you would weigh your words very carefully——

Mr. SCHULTZE. I have.

Representative REUSS (continuing). Because if we spend $22 billion that we are spending in Vietnam, or whatever it is, in building yachts