second defect is failure to recognize that we will not move suddenly from a state of high defense expenditures to a state of low defense expenditures, but instead will move very gradually.

The problems of poverty and social disequilibrium, inseparably connected, as well as the problem of economic disequilibrium, cannot wait until the Vietnam hostilities are over, or even beyond that to the time when a truly peaceful world assures a lower level of total defense outlays. Even now, there is some prospect of an antimissile defense system, of incalcuable but huge costs. The war against poverty and social disequilibrium should have started long ago, it should start now, and it should be at the very heart of the study programs and recommendations of the CEA, because it is at the very heart of our total economic problem—not a year or 10 years from now, but *now*.

IV. Fiscal Policy

Misdirection of tax cuts to date

In all the plethora of detailed examination of national fiscal policy during recent years, we have in large measure ignored examination of the purposes and consequences of the fiscal policies, actually put into motion. Consequently, the recent and current debate and concern on the subject has arrived at a condition for which the term "immaturity" would be a charitable description.

By the test of economic equilibrium, for reasons already discussed, the massive tax cuts of 1962–65, accompanied by earlier tax concessions from 1962 forward, were fundamentally misdirected. Viewing tax cuts having a total original value estimated at $19.2 billion—having a very much higher value now, because of the great expanded tax base—$8.6 billion were allocated, according to my analysis, to investment purposes, and only $10.6 billion were allocated to consumption purposes. This was in no degree responsive to the economic developments between 1953 and 1962 or 1965 which gave rise to this veritable orgy of tax cutting. Even if we were determined—as we should not have been—to attempt the major stimulus to the economy in the form of tax cuts, an entirely different composition would have been much more conducive to economic equilibrium and optimum economic growth in the long run, as well as to the restraint of inflation, than the tax cuts accordingly engineered. To illustrate, a very large portion of the tax cuts should have been devoted to lifting the personal exemptions from $600 to $1,200, or preferably to $1,800.[9]

Because of the importance of enlarging the propensity to consume, the composition of the tax cuts was also highly undesirable from the viewpoint of long-range economic equilibrium, not to mention the even more important issue of social equilibrium and economic justice. The 1964 personal tax cuts added only 2 percent to the after-tax income of the four-person family with $3,000 income; only 1.6 percent in the case of $5,000 income; and only 2.1 percent in the case of $7,500 income. But the same tax cuts added 3.8 percent in the case of $25,000 income; 6.2 percent in the case of $50,000 income; 8.3 percent in the case of $100,000 income; and 16 percent in the case of the $200,000 income. These comparisons are even more shocking when we take account of the fact that they are based upon established tax rates, and take in-

[9] See chart 10, following text.