Appropriate fiscal policies

The appropriate coures is to determine what portion of our resources, through Federal spending, should be allocated to public purposes, both domestic and international. This should be done on a long-range basis. We should then allocate to these purposes, through the Federal budget, such percentage of our potential total national product, estimated at optimum resource use. If, in fact, this leads, in conjunction with all other spending, to inflationary pressures in the form of excessive aggregate demand, we should then not cut back on these priorities, but instead increase taxes to curtail the extravagant, wasteful, or at least expendable, instead of sacrificing the essential. Curtailment of Federal spending to combat inflation negates the priority purposes of Federal spending. If, on the other hand, the determined levels of public spending plus all over spending do not generate sufficient aggregate demand to avoid deflationary trends, we should certainly not cut Federal spending on the ground that the revenues yielded by a deficiently performing economy are not sufficient to cover this Federal spending. Instead, we should obviously reduce taxes. In short, all taxes are burdensome, and practically no taxes have intrinsic value in themselves. It is the tax, rather than the spending side of the Federal Budget, which should serve the purposes of stabilization.

All this is so elementary that it is almost inconceivable that the "new economists" and the CEA could have forgotten it. But they did forget it, almost entirely, and so did their allies and protagonists in the academic world. In 1964, they arrived at the miraculous conclusion that a lot of people would rather have their taxes reduced than to witness increased Federal spending. An equal amount of action in either direction would have had the same deficit impact upon the Federal budget in the short run, although in the long run the spending route would have increased revenues faster than an equivalent amount of tax reduction because the former approach would have been sounder from the viewpoint of economic equilibrium and growth. But having arrived at the miraculous conclusion that tax reduction was "easier," these economists drew upon their full intellectual and propagandist resources to argue that it really made no difference to the Nation and the people which of the two routes were taken, or what blend of the two routes were chosen, because the impact upon the economy would be the same at any given dollar level of net action.

Never before in my recollection was there such forgetfulness of the purpose for which a responsible Central Government exists, nor of the purpose for which a responsible CEA should exist. To be sure, it was not foreseeable how much expenditures would increase for the Vietnam war. But it was manifestly foreseeable that our international burdens would remain immensely heavy, and perhaps even grow, for as far ahead as we could foresee. It was not only foreseeable, but currently apparent, that our great domestic priorities had been starved at least since the beginning of the great depression, and that, at least since the launching of the first sputnik in 1957, the urgency of the need to allocate much larger absolute amounts of resources to the public sector, if not larger relative amounts, had been recognized by almost all responsible people and organizations everywhere.

To cap the climax of this farrago of national fiscal policy, the "new economists" and the CEA were hoisted on their own petard from 1967