NATIONAL POLICIES FOR FULL EMPLOYMENT

by Lee E. Preston

On the wall of my study is a drawing by Saul Steinberg that shows a peacock labeled "Inflation" pierced by the arrow of "Statistics," and a lion labeled "Unemployment" impaled upon the arrow of "Semantics." It sometimes seems to me that this drawing about sums up our national economic policy. We assemble and process large collections of data on prices and price changes. We develop new terminology and measures of unemployment. And we come close to allowing semantics and statistics to become substitutes for thought and action.

Taken as a description of our national economic policies over the past couple of years, the drawing confronts me with a dilemma: I believe it is not entirely accurate, and yet -- at least in the case of the peacock -- I almost wish that it were. Inflation has been halted, at least temporarily, but not by the wayward arrow of statistics. It has been halted by a pervasive economic lethargy that Walter Heller, the chairman of the Council of Economic Advisers, has recently diagnosed as "tired blood." And unemployment, although somewhat reduced from its recession peak, has not been conquered at all.

The Kennedy administration took office almost two years ago with a commitment that has become a cliche -- to get the country moving again. And the economic front -- the rate of economic growth, the level of economic activity, the level of unemployment, the state of material well-being -- was one area in which, the administration stated at the outset, progress was required. Fortunately for the makers of campaign promises, from the post-inauguration month of February 1961 most indicators of aggregate economic activity have improved considerably. The result is a record over the past two years that the administration can point to with some measure of satisfaction. Gross national product, personal income, the number of people employed, the level of unemployment, the amount of wage earnings, the level of profits and other general indicators of economic activity have improved over the period.

The satisfaction with which this record can be viewed, however, is tempered by two facts: first, the fact that this improvement can be traced only in a very general and indirect way -- and perhaps only by administration partisans -- to any particular acts or policies of the present administration. And second, and

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more important, the fact that the 1961-62 recovery leaves so much yet to be desired in the reduction of unemployment and the elimination of excess capacity in the economy.

True, unemployment has declined from its recession peak of 8.1 percent of the civilian labor force to a current rate between 5.5 percent and 6 percent. But this is still well short of the goal of 4 percent which the administration accepted a year ago as "an interim target" for the reduction of unemployment. According to latest estimates, only about 83 percent of manufacturing capacity is now being utilized. As a result, employment and income are still below full-production levels, and profits are leveling $8 or $9 billion below the levels that full employment would provide. The total gap between our potential production and the current level of consumption, investment and public demand is now estimated at about $35 billion, down from a $50 billion figure of two years ago, but still much too large for comfort.

Thus, "National Policies for Full Employment," the topic assigned to me this afternoon, remains an important and even pressing subject for discussion by all citizens concerned with the welfare of our economy and of our nation. In addressing this same conference last year, Jim Tobin spoke of "The claim on our conscience of the poverty and insecurity we have not yet conquered." This claim is still unmet and our failure to meet it has but increased its urgency.

II

Before turning to a specific consideration of the national policies for full employment put forward over the past couple of years and the prospects for the immediate future, I would like to sketch out the matrix of alternatives which face the policy-maker in developing full employment policy. To begin with, we might distinguish between the alternatives of action and exhortation. By these terms I mean to contrast a decision of the makers of national policy to take specific action to increase employment opportunities and to promote the fuller use of productive resources as against a decision to exhort or persuade the private economy to accomplish these same purposes. The action programs available may be distinguished by their relative emphasis on increased expenditures on the one hand or on the adjustment of governmental receipts -- that is, tax reduction -- on the other. Spending programs may be further separated into those which have direct employment effects and those which provide general economic stimulus from which the employment effects are, at best, diffused and indirect.

We may further distinguish among action programs, both those involving increased expenditures and those involving tax reduction, as follows: (1) programs requiring a single, lump-sum adjustment in the level of spending or tax collections -- that is, the kind of action program that used to be described with the term "pump-priming"; (2) programs requiring permanent changes in the amounts or rates of expenditures or collections within existing operating procedures; and (3) programs requiring the establishment of new and continuing procedures and arrangements designed to effect a long-term improvement in income and employment opportunities. This matrix of policy alternatives is
three-dimensional: action-exhortation; expenditures-taxation; one-time adjustments, permanent modification of existing programs, and new programs. Evidently, there are fine lines of difference between the squares of this matrix, and over the course of time a particular program may shift from one category to another.

I think it is perfectly clear that the present administration is committed, at least in its public stance, to a program of action rather than one of exhortation on the full-employment front. (On the labor-management front it is rather another story.) It is also clear that in reaching decisions on the types of action to be taken, the administration has faced and continues to face hard choices between spending and the reduction of public receipts, between one-shot and continuing programs, and between the adaptation established programs to meet new needs and the establishment of new programs for specific new purposes.

Decisions in this last category, that is, the establishment of new programs to meet new needs, are in my opinion the most important decisions that the administration has taken on the domestic economic front. But these are the subjects which my colleagues on the panel this afternoon are going to discuss. The Manpower Development and Training Act and the Area Redevelopment Program constitute, I think, the most significant responses of the federal government to the problems of unemployment, underemployment and inadequacy of economic opportunity since the early Thirties. These two programs embody new ideas and, expanded and adapted on the basis of experience, they may profoundly alter the shape of our economy. Their relatively small achievements to date only indicate the enormity of their tasks.

The other major piece of economic legislation put forward by the administration thus far, the Trade Expansion Act of 1962, is also a measure directed at long-term and fundamental change in our economy. It represents a milestone in national and international economic relations. However, it cannot be described as having particularly desirable short-run employment effects, and indeed both its short-run and long-run employment effects are very difficult to forecast.

III

Having acknowledged these long-term programs as being the primary achievements of the Kennedy administration to date in the economic sphere, I shall deal in the remainder of my comments with economic policies and proposals directed toward increasing the level of employment and income in the shorter-term, the period during which, although we may all be dying, we are not yet dead.

Text book terminology describes this period as the period of the cycle, and the economic policies appropriate to this period as "counter-cyclical" policies. However, I think that the short term economic proposals of the present administration have contained, in fact, two elements. One can properly be described as a
counter-cyclical element. For want of a better term I will call the other a counter-lethargy element. (I forbear to use the term "counter-stagnation" since Chairman Heller has strongly disclaimed the charge of "neo-stagnationism.")

Whatever the terminology adopted, the present lack of expansion of the economy has been widely recognized for a considerable period of time. It was a campaign issue two years ago and the administration has been quite frank in acknowledging a continuing malaise even as it points to improvements during its period in office. Indeed, it is impossible to comprehend the current economic program unless one understands that "tired blood" is a malady, and a malady that cannot be relieved by either a nap or an aspirin.

Anti-lethargy medicine must contain a more fundamental and continuing stimulus, because its purpose is not simply the relief of a temporary indisposition, but a significant acceleration in the pulse rate -- that is, in the level of economic activity and the rate of economic growth. Anti-lethargy medicine is frequently described as growth medicine, but this description is accurate only if the growth involved is clearly understood to be the growth of the normal, healthy organism. Anti-lethargy medicine is intended to restore the normal conditions of growth, not to alter the fundamental conditions of economic development. Anti-lethargy medicine is intended to take effect tomorrow, or perhaps next quarter, or almost certainly next year, not just in that very long run when we will all live in redeveloped areas and be equipped with useful skills. That long-run will, indeed, take care of itself.

The proposals put forward by the administration in 1962 contained about an equal mixture of anti-lethargy and anti-cyclical elements. On the one hand, there were the investment tax credit and the revised depreciation guidelines which the Treasury put into effect. These two measures were designed to have impact in the near term and over long term on the rate of investment in machinery and equipment, and thereby upon the total level of investment spending, the efficiency of production and the rate of economic growth.

Although these proposals were not received with any great enthusiasm by the business community when they were first put forward, they now appear to have gained some acceptance. One can now read in the business press of decisions being taken as the result of, or at least partly influenced by, the more favorable tax treatment of new investments. Indeed, I am told that there are some at the Treasury who like to claim full credit for the fall up-turn suggested by some of the economic indicators.

Another portion of the administration's economic program in 1962 was directed at more specifically anti-cyclical goals. The three-part program for economic stability set forth in the President's Economic Report of last year contained the following proposals:

(1) Stand-by presidential authority to spend up to $2 billion on federal, state, and local public works in times of high and rising unemployment.
(2) Stand-by presidential authority to reduce taxes by up to 5 percentage points.

(3) Strengthening of the unemployment compensation system and extension of the system to cover more workers and longer periods of unemployment.

These proposals reflected a concern with short-term economic instability. They reflected a conception of 1962 as a period of recovery that might, in the normal course of things, be followed by a period of recession. They represented attempts to prevent such a recession and were advertised under the copybook maxim, "The time to repair the roof is when the sun is shining."

The fate of these proposals was a parody of their theme. The stand-by tax reduction authority and the strengthening of the unemployment compensation system did not find effective sponsors in the Congress. The public works spending proposal received a modest endorsement in the Senate, although with significant changes and a reduction in the volume of expenditures authorized. But the House chose an immediate public works spending program, and at length appropriated some $400 million for this purpose. Some of these funds are now being expended, and I imagine that somewhere in the relevant agencies there are individuals who would like to say that the fall up-turn is due to these expenditures.

I doubt that any serious student of the national economic scene would attribute the fall up-turn -- even if it proves to exist, or to have existed -- to either the small amount of additional investment that has been generated by the investment tax credit or the small amount of additional wages and profits that have arisen out of these public works expenditures. This is not to say that both of these programs may not have beneficial effects. It is simply to say that they are totally incommensurable with the unemployment problem and the underutilization problem that exists in our economy at the present time. I strongly suspect, though I cannot demonstrate, that if the failure of the summer slow-down to develop into a fall recession can be traced to any federal actions, these actions will be found to be associated with the Cuban crisis, arms for India, or the continued expansion and acceleration of existing federal programs, particularly the space program.

I would like to digress for a moment on the subject of public capital expenditures as an element of employment policy. It may well be that the expenditures made under the "Public Works Acceleration Act" of 1962 will be recorded as one more so-called example in the long history of so-called examples of "the failure of public works spending to mitigate unemployment problems." It will be unfortunate if this is so, because it would be more accurate to say that this program constitutes only one more example of the failure to try public works spending as a solution to an unemployment problem. The sums spent under the 1962 Act should have some direct impact on the level of unemployment in the communities in which these expenditures are made. But we cannot hope that these expenditures will have a significant impact upon the nation wide problem of unemployment. The disparity between the magnitudes is too great, the number of leakages and diversions too numerous. But this does not demonstrate in any way that a large-scale long-term
program of public capital expenditures might not have an important and continuing
topact on the reduction of unemployment and on the promotion of other worthwhile
economic objectives as well.

It seems to me that the ineffectiveness of public spending as a corrective for
unemployment has not resulted from the inappropriateness of the medicine to the
disease -- and not from the slow speed of starting, long time of completion, or
uncertain employment requirements of public works expenditures -- but rather from
the narrow scope that public expenditures for full employment purposes have been
allowed to take. When we consider the appropriate areas for public expenditures to
alleviate unemployment, we consider primarily highways, post offices, dams, and
reclamation and conservation projects. However, when we consider public
expenditures outside of an unemployment context, we are quite willing to advance
money to examine the bottom of the ocean floor, send a man to the moon, and do
all manner of projects which by some standards, at least, might seem somewhat
less useful -- or certainly no more useful -- than many of the activities viewed
as inappropriate lines of public spending for full-employment purposes.

There is no doubt that our economy receives a substantial stimulus from the
present high level of government spending on a variety of programs. But there is also
no doubt that the over-all stimulus, and especially the employment stimulus,
could be increased if our interpretation of the proper scope of public expenditures
in periods and areas of general unemployment were more imaginative. This need
not involve the usurpation by the federal government of activities now carried on
by state and local governments, or by the private sector. It might well involve
the expansion of activities now relatively dormant or only partially accomplished
by other governmental units or by the private economy.

I think, for example, of the pressing -- indeed nightmarish -- problem of
urban transportation. As you are probably aware, the very modest program which
the administration put forward to deal with urban transport problems -- or, in fact,
to assist states and local governments in dealing with these problems -- was
not received with any great enthusiasm by the last Congress.

It would be tempting to develop a long list of areas in which public expenditures
could be substantially expanded to improve my view of the general welfare. Many
of these expenditures would improve private profits as well. But it seems perfectly
clear that for the present the employment program -- and indeed the general
economic program -- of the administration is going to be directed away from any
increased expenditures. Nowhere in the proceedings of the recent Conference on
Fiscal and Monetary Policy held under the auspices of the President's Labor
Management Advisory Committee can I find more than the most passing reference
to expenditures as an important element, or even a potentially important element,
of an expansionary fiscal policy. On the contrary, some of the foremost supporters
of administration policy -- and some of its absolutely essential supporters in the
field of fiscal policy -- have been very outspoken about the need for curbs, and
even retrenchments, on public expenditures. And promises of expenditure control
appear to have been the most popular items in the President's New York speech of
last Friday.
On the other hand, tax reduction in 1963 seems well nigh inevitable. President Kennedy promised to request such a reduction in his television address to the nation last August, and this promise was repeated -- although with some uncertainty about the effective date -- only last week. The principle of reduction has been endorsed by President Eisenhower, the U. S. Chamber of Commerce, the AFL-CIO, the Advisory Committee on Labor-Management Policy, the Committee for Economic Development, and virtually everyone -- with the exception of Raymond J. Saulnier -- who can find a forum in which to express his views. Indeed, speaking as a taxpayer, I take this opportunity to endorse tax reduction myself.

The exact form which the tax reduction proposal will take is not known at this time. Nor can we know exactly what Congress will do with the proposal once it is put forward. However, it is apparent from the public discussions thus far that the forthcoming proposal for tax reduction will take a form designed to arouse a minimum of controversy. That is, there is likely to be something for everyone. The proposal may well involve a relatively greater reduction in personal income tax rates on the highest income brackets, a reduction justified in terms of its allegedly powerful psychological effects and its almost negligible cost in terms of lost revenue. The proposal will almost certainly involve a reduction in the corporate income tax to something less than 50 percent, although certainly not much less.

One would have to be either very wise or very naive to think that he knew what the effect of a particular tax reduction would be on the aggregate level of economic activity and the level of employment. Certainly much depends on the timing of the reduction, on other developments in the economy between now and the time the reductions take effect and on the final form of the reductions themselves. Reductions of 3 to 5 points in all brackets of the personal income tax and 3 to 5 points in the corporate tax as well would involve gross federal revenue losses of something like $10 billion. If we estimate the GNP Multiplier at something like 2-1/2, we can easily project a $25 billion addition to GNP as a result of such reductions. A $25 billion increase in GNP would do a lot to close the currently estimated $35 billion gap between actual and potential levels of economic activity, and it might be hoped that the momentum generated by such an expansion would carry the economy a very substantial way toward the goal of full employment and the higher long-term growth rate.

This is, of course, an extremely rosy picture, and it would be easy to put forward a number of qualifications which might make the picture less rosy. It is more to the point, however, to consider the effects on the economy of smaller tax reductions and of the increasingly popular multi-stage plans for tax reduction.

The possibility that taxes might be reduced in more than one step has always been a part of the discussion of tax reduction alternatives within the administration. Current optimism about the economic outlook has greatly increased the enthusiasm for a step-by-step reduction, tied to other changes in the tax structure generally referred to as "reform," as against a one-time revision of tax rates. The CED has recently come forward with a proposal for a $6 billion initial reduction; other proposals for $4 to $5 billion reductions in 1963 and equal amounts in 1964 are receiving wide currency.
There are two critical tests to be applied to these proposals. One is the effect of the size of the reduction on the size of the relevant multiplier. The second is the relation between the total economic stimulus anticipated from any proposed reduction and the total need of the economy for stimulation. Current discussions of the magnitude and timing of tax reductions have stressed the first issue, the critical amount of reduction necessary to obtain specific multiplier effects. Clearly, the size of the reduction and its relevant multiplier are correlated, and it is conceivable that some very small tax reductions could involve no multiplier effects whatsoever under present conditions.

But this is an issue of secondary importance when the contemplated reductions are clearly too small -- even with the most optimistic multiplier assumptions -- to push the economy even halfway to full employment. Whether a tax reduction of $5 billion would be associated with a GNP multiplier of 1.5 or 3 is an interesting intellectual speculation; but the important point for public policy is that a $5 billion reduction, even with a multiplier of 3 is hopelessly inadequate. If we accept the current data on the rate of capacity utilization, then a $10 billion reduction with a maximum multiplier is certainly none too large.

The contention that we should take the necessary amount of medicine in more than one dose is even more difficult to take seriously. There is no reason to think the expansionary effects of tax reduction will be increased by two-stage action, and even if the total impact were the same under both one-step and two-step reductions, the selection of the two-step alternative implies the desirability of prolonging a certain amount of under-capacity operations in some sectors as long as possible.

I see nothing to recommend either half-measures or procrastination. A maximum tax reduction, effective as soon as possible, cannot be guaranteed to cure our ailments. Taking our anti-lethargy medicine in small, slow doses will simply compound our problems and leave us with both the medical expenses and the indisposition to plague us in the future.

The general enthusiasm by which the prospect of tax reduction has been greeted may seem somewhat surprising in view of both its uncertain magnitude and the uncertain character of its effects. The rosy picture of an expanding economy moving toward full employment when "freed from the burden of confiscatory taxation" accounts, I think, for a large part of this enthusiasm. In addition, of course, there is the enthusiasm of every income-earner for the thought that his own share of his private income is going to be increased. But further, I think, important support for tax reduction in 1963 is coming from sources in fundamental disagreement with the idea that tax reduction should be the sole or even primary element in an expansionary economic policy.

The view that the expansion of public expenditures -- not tax reduction -- should be the primary vehicle for economic stimulation is widely held by many individuals and groups. It is, therefore, somewhat surprising to find these same individuals and groups providing strong support for current tax reduction proposals.
There are two reasons, I think, for this seeming about-face. One is the purely pragmatic one of settling for what you can get. The record of the past Congress and the promise of the next one would not seem to indicate any marked enthusiasm for public spending on a large scale, and indeed this may reflect not only Congressional opinion but the opinion of a large majority of the electorate. Under these circumstances, fiscal stimulus can come only from the maintenance of spending programs while tax collections are reduced.

There is a second and more subtle reason for the support of tax reduction at this time, even by those who feel that the expansion of public expenditures would make a greater contribution, both to the need of our citizens and to the long-run growth of the economy. Tax reduction in 1963 implies, and indeed forces, public discussion and acceptance of two important ideas. First, that the economy is indeed lethargic and that the federal government has an important responsibility to counteract this lethargy and to stimulate a more rapid expansion. The second idea is that budgetary deficits can be incurred voluntarily and can be expected to have beneficial effects on the economy. One might presume that both of these ideas were widely accepted, especially with the Eisenhower tax reduction of 1954 in the background; however, only a week ago Eisenhower's last economic adviser dubbed the possibility of tax reduction under present circumstances "distinctly bizarre." There is still a long way to go.

The acceptance of these two ideas can have very important long-term consequences. If the analysis of the determinants of actual and potential production -- an analysis that has been put forward most strongly by the Council of Economic Advisers but that has come from many other sources as well -- is accepted as correct, then the analysis itself becomes a vehicle for public thinking and public policy formation in the future. Suppose the decision is taken that a lethargic economy, an economy in which there is a significant and persistent gap between actual and potential levels of output as revealed by such analysis, requires federal stimulus. Then such decision also becomes a significant element in future economic policy.

The decision to seek rather than simply accept a deficit in the federal budget, to incur a deficit voluntarily in order to stimulate the economy, represents an important departure from traditional patterns of thinking about economic policy. It is even an important departure from the campaign pronouncements and early policy statements of the present administration. Thus, even if tax reduction is a second-best form of economic stimulation, the acceptance of second-best when best is considered unattainable may lay the groundwork for the adoption of stronger, more imaginative and more effective policies in the future.

The omission here of a third idea very prominent in tax reduction discussions may be sufficiently conspicuous to require comment. The idea, of course, is the cyclically-balanced budget or, more generally, the idea of divorcing budgetary analysis from any single calendar year.
There are two questions to be raised about this idea. The first is factual: Will any specific tax reduction in 1963 lead to sufficient expansion in incomes and tax revenues to yield a balance in the federal budget in some future period, say 1964 or 1965? The second is the policy question: Is there any time period over which the question of balance in the federal budget as presently constituted should be a primary focus of national policy? The second question, in other words, is "Does the first question matter?" My answer is that, however significant the future budgetary impact of tax reductions may be for federal financial management, this is not a matter of prime importance in public policy formulation.

Those who are advertising tax reduction as a route toward budgetary balance profess to be taking a "long-term view." Perhaps they are, but from my own perspective on the long-term view, I should say it would be preferable to abandon the proposed tax reduction altogether than to obtain support for it as a means of bringing the federal budget into balance.

Whether budgetary balance is achieved or not -- and if not, those who promised it will be accused of deception -- the advertising of budgetary balance as a highly favorable feature of the proposal simply reinforces the power of accounting systems and decision criteria that have become obsolete, if indeed they were ever appropriate. The mystique of the balanced budget has repeatedly been shown to be a powerful barrier to an effective full employment policy. Reinforcing this barrier in order to obtain a short-term palliative is, I believe, the wrong answer to the dilemma of ends and means. Some tax reduction in 1963 might contribute to budgetary balance in some future year. I seriously doubt that we can make anything other than educated guesses about the magnitudes, dates or probabilities involved, and so far as I am concerned, the matter is not of sufficient moment to justify the effort.

VI

If tax reduction is the only, or certainly the major, economic proposal for 1963, how can we appraise it as an element in full employment policy? In the first place, it is clearly not an employment policy at all in any direct sense. The employment effects of tax reduction will depend on the private spending stimulated, and it is clearly the spending of people who already have jobs and incomes. People who are unemployed, or who are extracting only marginal incomes from the economy, will not be affected directly by any change in the tax structure, and some of them may be very little affected even indirectly. This, of course, is a fundamental difference between a tax reduction program and an expenditure program. In the latter we can be certain of the stimulation of the first-round spending, and if this spending involves the employment of previously unemployed people we can be certain of the short-run direct employment effects.
Tax reduction is not an employment program, nor can the tax reduction proposals lurking between the lines in current administration pronouncements be described as a full program of any sort. The tax reductions being suggested for 1963, even at their maximum, can scarcely guarantee to close completely the gap between actual and potential production, nor to eliminate completely the problems of unemployment, underemployment and undercapacity in our economy. The possibility that the tax reduction will be effected in small steps and that expenditures will be curtailed or simply fail to rise to meet needs which expand because of the reduction simply reduces further its potential impact and increases the disparity between current proposals and a full program of economic stimulus.

But in spite of these strictures there is much to be said on the positive side. The acceptance of tax reduction at this time would be an important new development in the national consensus on economic policy. Tax reduction is an expansionary program and apparently the kind of expansionary program which the public and the Congress seem to want. Unlike many other expansionary programs, it does minimum violence to the market system; indeed, we might say it represents an expansion of the market system by leaving income in the hands of income owners. It allows maximum flexibility for private decisions over the use of resources, a principle to which our economic system is dedicated.

It will be interesting to see what these decisions are. Some skeptics believe that the greatest pent-up demand in the economy is for saving. If so, the proponents of full employment through tax reduction are in for a bitter disappointment. Although the stimulating effect of increased savings on the economy, through reduced interest rates and expanded investment, is a theoretical possibility, there is no reason to anticipate such an effect under present circumstances.

Others would have us believe that the major impact from tax reduction will be on expenditures for travel, education and other attributes of the good life. Such expenditures, however desirable in themselves, will generate very little in the way of employment effects or investment spending in the relatively inexpensive sectors of the private economy. (It will not escape your notice that many of these potential growth industries in an affluent society require a considerable amount of public investment, investment made no easier by tax reduction.)

Still others, of course, are of the optimistic school and hold that a major reduction in taxes will produce a significant burst in consumer spending for housing, for durables and for other commodities which will provide the basis for sustained economic expansion. The optimists have a good deal of prior experience -- particularly the 1954 experience -- to cite in support of their views. If the future is substantially like the past they will prove to be right.

VII

I do not want to close these comments without making a specific reference to the impact of full employment policy, and particularly the policy of economic expansion through tax reduction, on the agricultural sector. I am sure there are
divided opinions here on the subject of the CED's recently proposed "Adaptive Program for Agriculture." However, I doubt that these disagreements extend to the statement, to be found on page 32, that "The maintenance of employment opportunities in non-agricultural industry and services is an essential condition for the most satisfactory agricultural adjustment." Certainly it is easier to transfer resources from one use to another in a high production, high employment economy than in an under-production, high unemployment economy. For this reason alone, national policies for full employment are intimately connected with national policy for agriculture.

Looking at the question more narrowly, what can the agricultural sector expect to gain from the economic stimulus promised by tax reduction? Taking the period 1953-1961 as the basis for a shirt-sleeve projection, one notes an increase in personal consumption expenditures per capita of 12.8 percent (from $1638 to $1847). This increase in consumption expenditures included an increase of 2.9 percent in food expenditures per capita (from $381 to $392) and 7.6 percent on clothing and shoes ($144 to $155). The result was an increase in consumer expenditures per capita on food, clothing and shoes of 4.2 percent (from $525 to $547). If we use these factors as the basis of estimation (I believe they are somewhat high) and we take the optimistic assumptions of a $10 billion tax reduction and a $25 billion increase in Gross National Product, we would project a $16.25 billion increase in Personal Consumption Expenditures, an increase of 4.8 percent. From this we could project an increase of slightly over 1 percent in food consumption expenditures per capita and almost 3 percent increase in clothing and shoe expenditures per capita for a total increase of 1.6 percent in total consumer expenditures for food, clothing and shoes. This is the same order of magnitude as the increase in food, clothing and shoes consumption expenditures resulting from the natural increase in population from one year to the next in recent years.

That is, of course, not an increase to be scorned. However, you will note that these estimates are extremely rough and optimistic, and that they simply illustrate again the well-known inelasticity of demand for agricultural products. These increases are far short of those that would be required to make an important contribution to the solution of our present agricultural problems. I think, therefore, that it is fair to say that although tax reduction may contribute some benefit to the agricultural sector in its income earning and tax-paying activities and may provide some stimulus to the consumption of agricultural commodities in the economy, its primary impact on the agricultural sector will depend upon its general expansion of economic opportunities outside of agriculture, and thus on the ease of resource transfer from agriculture to other employments. As to the probable magnitude of these effects, although I have been heavily exposed to the lessons of the optimistic school, I confess that I remain agnostic.