

Chapter 1

PRIORITIES IS . . . *

A fourteen-year-old boy died apparently of an overdose of pills yesterday, only hours after the Board of Education said it had no funds for security guards to fight narcotics problems at the school he attended. . . . Mayor Lindsay said, "This is a regrettable tragedy and I will ask for a full report on the incident from the Police Commissioner."

—*New York Times*, February 17, 1970

Priorities is when you have reports instead of money to save human lives. Priorities is when you have a boom in office building downtown and urban decay uptown. Priorities is when we grumble about paying higher rates for electricity and simultaneously grumble about air pollution from the local utility. Priorities

* A Bernstein-Macaulay bulletin, March 1, 1970.

is when we can afford to drop bombs on houses in Vietnam and can't find the financing to build houses at home. Priorities is when we cut back on appropriations for education and ask for extra appropriations for antiballistic missiles. Priorities is when you can take a walk on the moon but are afraid to walk down your own street. Priorities is when the Governor won't ask for higher taxes in an election year and then there is no money to provide a cheap and efficient public transportation service. Priorities is when we are willing to spend money to buy television sets to sit home and see thoughtful programs about the problems of our society that we don't want to spend any money to do anything about.

"Priorities" has been a cool word in the past. Today—and for many days to come—it will be the hottest word in our vocabulary.

For much of our history, including most years since the end of World War II, the American economy has operated with a margin of idle capacity and unemployed workers, so that increased demands from one area or another could be met with relatively little difficulty. Guns *and* butter was the cry. We could even have guns and butter and road-building and schools for a good deal of the time.

But now, as we look ahead into a new decade, the grammar is changing. For all the "and's" read "or." Affluent as we may be, the needs of our cities and our educational systems and our starved supply of housing and our defense

establishment and our aspirations for more leisure and our burgeoning supply of 20- to 30-year-olds add up to astronomical numbers that even our fabulously productive economy cannot meet.

This means we will have to make some important choices. *To a greater extent than most people realize, however, we have already locked ourselves into some crucially important choices.* This will make the significance of selecting priorities even greater than it might have been otherwise.

To begin at the beginning: the direction in which we are moving and the largest of the deficiencies we are trying to overcome are all enormously *capital-using*. In other words, they require a large investment in labor and resources for a long period of time before they begin to bear fruit in quantity. Urban renewal, housing, education, public transportation, the drive against pollution, hospital building, and doctor training, to name just a few of the things we are in a hurry to accomplish, will absorb massive amounts of resources and will show results only gradually.

Furthermore, all of them require *financing*. Few of us have the ready cash to pay for a home without a mortgage, and the federal and local governments must have more tax revenues or borrow more money if they are to increase their expenditures. At the same time, as a result of the drastic drain on corporate liquidity in recent years, even moderate rates of business expansion now require high levels of external financing. In short, the urgent

needs of our society imply intense pressures on our capital markets. This comes at a time when we are already absorbing a colossal volume of financing and when our usually efficient capital markets are groaning under the strain.

Since the external financing requirements of business are likely to remain high, since the unsatisfied demand for mortgages is enormous and growing daily, since state and local governments will have a clear need for tremendous sums, since the appetite of our defense establishment seems to be insatiable, and since major domestic federal programs are clamoring for attention, the probability is that we will have neither the real nor the financial resources to accomplish everything that we would like to accomplish.

Now there is one way to do it. Although business has insufficient cash flow to finance its expansion internally and although state and local governments are hard pressed to cover their expenditures right now, we could solve a lot of problems if the federal government could operate at a surplus. This would have a double advantage: The federal government would make no claims on the capital markets and, in fact, would be repaying debt out of the budget surplus and therefore putting money back into the coffers of the individual and institutional investors who buy the securities that businesses and local governments offer for sale. This is something of an oversimplification, because it depends to some extent on who pays the taxes, but the general concept is valid nevertheless.

If the federal government is to operate at a surplus and hence both relieve and replenish the capital markets, that means that revenues must exceed outlays. Which way are we to do it? By increasing revenues or by restraining expenditures? The degree to which the federal government can fulfill its share of improving the quality of life in the United States depends precisely upon this choice.

The problem is that the choice has already been made. The haste to remove the Johnson tax surcharge and the ultimate implications of the tax reform bill of 1969 both mean that the revenues of the federal government in the years ahead will be many billions of dollars less than they would have been if the choice had been made the other way. But this also means that the level of federal *spending* is going to be many billions of dollars less than it would have been otherwise. The only other choice is to persist in the disruption of our capital markets, to squeeze housing still further—or to revert to some type of credit control and rationing.

It is possible, perhaps even likely, that state and local governments will tax away the federal tax savings that Congress voted us last year and will therefore be able to fund some programs that might otherwise have been carried out on the federal level. Some people would even welcome a shift of responsibilities along these lines, and it does have certain attractions. However, it has two serious disadvantages. First, the citizens who end up paying higher state and local taxes may not be the same ones who get the full benefit of the federal tax savings. Second, the revenue-raising abilities

of the states vary enormously: the rich states can improve themselves rapidly while the poorer states fall further behind. When projects are financed by the federal government, we can manage things in a more equitable fashion.

But we had best face up to the implications of what Congress has decided for us: The priority of our private pocketbooks is more important than the priority of our public needs. The federal government is going to have to count its pennies with great care. The question is not guns or butter, but guns or schools (and for "schools" you can read the whole array of urgent domestic programs).

How large a defense establishment can we *afford*? No question is more important today for our social and economic well-being. Note, the question is not: how large a defense establishment do we *want*? We have set up our priorities in such a way that we simply cannot have everything we might like the federal government to give us. We have to make the choice, no matter how difficult, now and in no uncertain terms.

The disarmament negotiations with the Soviets, the decisions with respect to Southeast Asia, the ABM controversy, and the fascination with new weapons systems are important not only in terms of what America's role in the world should be and in terms of judgments concerning the intentions of other great powers; we are simply unable to make decisions in the foreign policy area without simultaneously making decisions that determine the rate of fulfillment of domestic needs.

That is why, for the first time since the period of disillusionment after World War I, the military is on the defensive in the halls of Congress and before the public. In view of the rapidly changing age-structure of our population, they are likely to remain on the defensive for a long time to come. And here is the crucial point: At more than any other time in our history, the fate of our economy is going to be determined by the view we take of our society and our sense of social priorities.

Here is one hopeful note on which to end this dissertation. From 1948 to 1969, the average increase in the Standard & Poor's 500-stock index was more than three times as great during years in which defense expenditures were flat or declining as during years in which defense expenditures were rising. Excluding 1960 and 1961, when the usual relationship was reversed, the ratio was better than five to one in favor of years of flat or declining defense expenditures. Well, anyway, here's hoping!