WHERE IS THE MONEY COMING FROM?

Editor's Note:

ON October 28, 1956, Governor Stevenson issued a statement in his campaign entitled: *A Program for the True Economy: Where Is the Money Coming From?* Governor Stevenson spent much time over the past several years with many leading economists in the country trying to absorb modern advances in monetary and fiscal theory. This statement is an outgrowth of these seminars. In the opinion of the editor, this document is unique in American campaign history. Of course, it raises issues of ideology as well as of economics. It seemed to the editor that further consideration of this message by economists might serve to clarify the issues. He therefore invited comments from a number of economists of varying political faiths and also a few outstanding foreign economists more likely to be isolated from American political controversies.

Unfortunately, the Stevenson statement is too long to reproduce here. The main objective was to consider the growth of the economy in relation to the resources that might be put at the disposal of government. The Democratic candidate had been annoyed by charges of "pie in the sky proposals." Hence, in this statement he measured the rising income against proposed expenditures for civilian services and also suggested methods of finance, the use of monetary and fiscal policy to achieve maximum output, with minimum disturbances of prices, and fair distribution.

Since *Where Is the Money Coming From?* is a political document, I was not disposed to republish it. But some of my colleagues have urged me, since we are having comments on the economic issues by economists of varying ideologies, that reproduction of a few passages would help gain some notion of the basic ideas of the document being discussed. I have, therefore, extracted about one-sixth of this 7,000 word document and skipped over the more political passages.

All of Governor Stevenson's program papers are to be published in a forthcoming book (Harpers, 1957). — S. E. H.

I have proposed programs to insure us all against the high cost of medicine, to combat the crippling and killing diseases that cast a shadow over our life; to build the schools and train the teachers to give our children the education they deserve; and to give new security and meaning to the life of older citizens. I have spoken often of the need for a full development of our great bounty of natural resources, for the rebuilding and renewing of our cities, and, most important of all, for the building of peace.

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There is one question, however, that I want to ask and to answer myself, and that the American people often and rightly ask, too. That plain and realistic question is this: Where is the money coming from?

The answer to this is that the money for our programs of welfare will come from our own economic growth as a nation. As our national product increases, our tax revenues will rise. Indeed, at present tax rates, the revenues can be expected to increase much more than the cost of the programs I have proposed.

Moreover, this can and must be done without the silent robbery that goes by the name of inflation.

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. . . It is economical to avoid waste and to examine every proposal with a careful, realistic eye as to its real merit and its financing. It is not economical to let needed public services deteriorate, to skimp on needed programs of general welfare, to be niggardly with the needs of future generations. For what, after all, is economy? It is not simply the accumulation of great unused storehouses of wealth. It is the wise use of that wealth, without waste, and with careful attention to the future's needs; it is the use of what we have to serve human living in the wisest way.

It is not true economy to neglect our educational system which not only provides the trained manpower essential to our progress in technology, but also is itself a chief source of the knowledge and skill and character that are among the great ends of living. It is not economical to fail to provide adequate medical care and medical research, and to let men be ill and children die when they need not. It is not economical to let older citizens eke out a bare existence, and find the twilight of their days insecure and bereft of meaning. It is not economical to allow our cities to deteriorate, juvenile delinquency to grow, and slums to increase, when wise action by government could help to prevent these evils. It is not economical to let the years pass when we could be creatively building for the full development of our natural resources for all the people. It is not true economy, where wealth accumulates and men decay.

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The question, "Where is the money coming from?" can be asked from two points of view. The first and most fundamental question is: "Where will the American people find the productive capacity — the labor, land, plant, and equipment, and natural resources — needed for these programs?" The second question is: "How will the Federal Government raise the revenues these programs require?" If we can find a satisfactory answer to the first question, we can also answer the second.

And the answer to the first question is found in the great and constantly increasing productive capacity of the United States.

If full employment is maintained — and we are committed by the Employment Act of 1946 to maintain it — then our national production should grow at the rate of at least three per cent a year and our national product should now increase by at least $15,000,000,000 a year. That anticipated rise is based on the average growth over the years, an average that we have every reason to believe can be continued. This, in fact, is a minimum rate. Dr. Arthur Burns, the President's economic adviser, has just held out the prospect of an increase of $200,000,000,000 in ten years, or $20,000,000,000 per year.

The greatest resource for maintaining that rate of growth, of course, is the energy of human beings, and we're going to have more and more of that. The population of our country is growing at a rate that only a few years ago seemed impossible. This means a great and continuing increase in our labor force and therefore in our product. Indeed, with the coming of these millions of new American workers, it could be said that we had better maintain our rate of growth or else unemployment will steadily rise. The increased population means new human needs that must be met; but it also means a still greater increase in the product from which to meet them.

The new plant and machinery made possible by our savings, and the steady advance in our efficiency and our technology, also will contribute to the continuing growth of our national product. We now have a national product of over $400,000,000,000. By 1960, we should have a product of $450,000,000,000–$500,000,000,000. In another decade — measuring in dollars of the same purchasing power — we can expect our annual production to reach $550,000,000,000–$600,000,000,000. This means we will have $150,000,000,000–$200,000,000,000 worth of additional goods and services.

I do not mean to imply that such an increase will come automatically. Continued growth requires the cooperation, effort, and intelligence of all of us, and wise action by the Government. But, on the basis of past performance, we can work for this increase in solid confidence; I am confident we can achieve it, and more, because I am not a "prophet of doom and gloom."

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The New America programs that I have proposed would increase the working potential of the older citizens, reduce the time lost because of illness, increase the adequacy of our educational system, provide for the full development of natural resources, and they will far more than pay for themselves in the long run. Even those that do not have so tangible a return — like the preservation of parks and wildlife — are nevertheless a worthy part of an economy that understands what is truly valuable.

The programs which I propose might cost about $3,000,000,000 in two or three years and rise to three times that amount in a decade, a period in which our national product is expected to rise by $150,000,000,000–$200,000,000,000. In other words, I am suggesting that we devote roughly 5 per cent of our prospective gains in national output to these essential national programs. We shall also want to reserve a generous share of our total fiscal capacity for the states and localities to enable them to meet their rapidly growing responsibilities.

We can afford to do this and at the same time spend what we must for our military security, for the defense of the free world, and for contributions to the economic health and progress of the underdeveloped countries of the world. If we succeed in achieving the increase in national product of which we have shown we are capable, we can do all that I have proposed, and still enjoy most of the fruits of our economic growth in the form of increased private consumption.

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Our second question is, how will the government finance this program?

Seen in the perspective of an expanding economy, the answer is clear: our existing taxes will yield all the revenue needed, and leave an ample margin for tax reduction.

The anticipated increases in national output will increase the tax revenues of the Federal Government without changes in tax rates or structure. As what we all earn increases, what the Government receives increases. If tax rates are kept at present levels, Federal tax revenues should increase from their present level of over $70,000,000,000 to $100,000,000,000–$110,000,000,000 by 1965–66. This increase of $30,000,000,000–$40,000,000,000 in Federal taxes would be three-fourths times what is needed to finance the national investments that I have proposed.

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But nevertheless, in the absence of a major war, there is every reason to believe that we not only can meet the claims of these programs out of increased tax revenues that respond automatically to higher incomes, but even reduce tax rates. The total amount of money the Government will receive in taxes, of course, will rise; but there is every reason to believe that it will be possible to lower tax rates. Indeed, if security expenditures could be lowered substantially, then even the total amount of taxes might fall. Of the gains of output, the American people should be able to appropriate most for private use.

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But we are determined that there shall be, not depression, but growing abundance in the years ahead. That is the context in which this program is presented. And, given that assumption, our program is realistic.

In the expanding economy of the next ten years, I propose, therefore, that we spend by 1965 on the order of $10,000,000,000 per year additional on our program for the New America. It amounts to but one-third to one-fourth of the rise in Federal government tax revenues from our growing prosperity, and is only about 5 per cent of the gains in the national product that both Republicans and Democrats expect. I suggest that this is little enough for a great, rich land to spend on needed public services.

These economic questions, at first, are matters of cold, hard material fact — the amount of iron, the number of kilowatt hours, the condition of the soil, the number of men in the labor force. But that is not the whole story. At the least, the question of what we can do and will do depends upon what we really value. The way we deal with the material goods we have depends upon, and reveals, the true nature of our spirit. The means are at hand for us to build a nation that is as much devoted to the promotion of the general public welfare as it is to the pursuit of private happiness. I believe we can have much more to spend as citizens, and we can also have the public services that are indispensable for our growth. All we need now is the intelligence and the will.

I

J. Tinbergen

Governor Stevenson's statement of October 28, 1956, on *Where Is the Money Coming From?* deserves to be commented upon in this scientific journal, since it seems to be indicative of a trend in political discussion in which scientific thinking may play an increasing role. This trend seems to be international, which may be an excuse for a foreign guest to participate in the commenting.

It seems appropriate to distinguish between three types of political debate in election time. The first type consists of statements about the personal abilities of the candidates involved. The second type consists of discussions about alternative policies in terms of the general principles underlying such policies. The third type consists of discussions in precise and sometimes even quantitative terms of alternative programs. The first type is necessarily of a subjective character and is apt to arouse sentiments rather than appeal to the citizen's cool judgment. It cannot be avoided in countries with the district system as opposed to the system of proportional representation. Although its useful function in a process of selection cannot be denied, it easily slides off into delicate personal questions not always relevant to the larger problems at issue.

The second type of election debate, the one in terms of "principles," is more common in countries with a party system based on ideological issues, whether social or, as in the author's homeland, religious. It also arouses a good deal of sentiment, and the exercise in thinking it implies is not always too helpful in devising constructive social policy.

In comparison to both, the third method represents a higher level of discussion. It tries to make an appeal to critical and constructive thinking rather than to sentiments only; it tries to unite people rather than to divide them and it also opens the way to a more businesslike approach to the management of the country's affairs. It does not indulge in personal controversies or in sterile philosophizing; by its greater precision it helps to narrow the gap between promises and actual performance and opens the way to agreement on well-defined concrete proposals. It is one of the features of political discussion that has gradually developed since the 1920's, under the impact of the complicated economic and social problems facing the world. In a country like the Netherlands, where political thinking in terms of principles has been quite vivid, the third type of debate has come to the foreground especially after World War II and has contributed to a smooth solution of several important problems. The determined effort in 1951 to overcome balance of payments difficulties is a well-known example, followed, quite recently, by a similar decision. It is fair to state, I think, that one of the factors in this picture of efficient decision-making has been the role played by economists in all political parties in contributing to mutual understanding. To be sure, the more important basic factor was the confidence placed in the government by both employers' and employees' unions.

As already stated, the phenomenon is international, although not completely synchronized between countries. The document under discussion is an interesting symptom of what is developing in this country. It consists of two types of statements: some principles of general financial policy and a set of concrete figures about the financing of the new social policy proposed by Mr. Stevenson. It is difficult for an outsider to scrutinize each figure given; certainly American experts in this field, from both parties, will be able to do so. What makes the document especially valuable is its attempt at giving a *vue d'ensemble* of the country's prospective development and the use to be made of the increase in resources. The usual tendency to forget about other items of a government program therefore has been avoided. Although dealing primarily with the program known as the New America, Mr. Stevenson reminds the reader of the importance of defense and foreign programs, of the desirability of certain tax reductions, and of the interdependence of federal and state finance.

The main features of the quantitative scheme are the following. National income, now above $400 billion, is expected to rise to $450–500 billion in 1960 and $550–600 billion in 1965–66. Federal taxes are assumed to increase, if no change is introduced in rates, by some $30–40 billion by 1965–66. These figures seem to be basically sound. Of this amount, some $10 billion would, in 1965–66, be needed for the new program, leaving room for increased defense or development aid as well as for tax reforms.

More details and an integrated table of all the items involved would have been helpful. Certainly the desire not too much to commit himself has induced the speaker only to give the main items. Also in this respect the document, therefore, marks a phase in a development. May its example contribute to further development in this desirable direction.

II

G. L. Bach

Governor Stevenson's statement is a generally encouraging one to the economist, whatever his party leaning. If Mr. Stevenson and other Democratic (indeed, democratic) leaders really believe and understand everything in this statement, the day of enlightenment is upon us. A confirmed political independent and skeptic concerning campaign oratory may be permitted some doubts. But let us accept the document as reflecting the position of its party and ask what light it throws on the economics of politics on the modern scene. How far are the major parties agreed on the fundamentals of economic policy? To what extent have they learned the lessons which economists teach?

Points of agreement. First, the stated broad economic goals of the two parties are hard to distinguish — full employment without inflation; continued rapid economic growth; more adequate provision for older citizens, for education, for health, and for housing; economic aid to low-income groups and others in especially difficult straits.

Second, the great fiscal policy controversy of the 1930's has faded to a rumble. Stevenson declares unequivocally for fiscal policy as a major tool for economic stabilization and for budget deficits to fight large-scale unemployment. It is a better rounded fiscal policy statement than I have seen from a top Republican spokesman. But in spite of Stevenson's attempt to make an issue, it seems to me that Eisenhower has clearly embraced both built-in flexibility of the C. E. D. variety and real budget unbalance if mass unemployment develops. Alas, we cannot be so sure about the reactionary elements of either party. Mr. Stevenson's guns should be trained on this group in both parties, not on the Republicans as such.

Third, both parties have discovered the wonderful way of compound interest at 3 or 4 per cent with a $400 billion GNP. Growth is here.

Points of disagreement. But behind these major areas of encouraging agreement, Governor Stevenson's statement seems to me to point up at least three important differences of economic philosophy between himself and the Eisenhower administration.

1. First, there is a fundamental difference over the proper role of federal government spending, stabilization considerations aside. Governor Stevenson writes: "As the size and complexity of our society increases, the role of government activity must not be allowed to decline . . ." On the contrary, it should increase, certainly in absolute size. But to President Eisenhower, the tax burden is heavy. Increased government spending may be required to meet clear and pressing needs, but these are to be viewed with a highly cost-conscious eye.

The issue here is only partially one of economic analysis. It is, at least in a fully employed economy, what is the optimal allocation of resources and distribution of income? There is little doubt that better schools and more low-cost housing will be provided if the undertakings are subsidized directly or indirectly by the federal purse. But whether they *should* be expanded through this means is another question. Mr. Stevenson writes: "In a rich land and a time of abundance, there is no justification for such a policy [of cutting government expenditures for such services]." To which the economist, even though he personally approves, must append the clause: "*unless* people prefer to spend their money on themselves rather than on taxes to provide better education for youngsters and better housing for low-income families."

2. Second, there is a real difference on the likelihood of inflation and, I think, on the importance of preventing it. Governor Stevenson begins by doubting that government spending is likely to lead to serious inflation — by defending the general fiscal responsibility of "politicians" (especially the Democratic variety). Although he condemns "the silent robbery that goes by the name of inflation," it is clear that avoidance of inflation does not seem to him a major problem now, to be placed over the need for more government services. He derides the Administration's concern with reducing the size of the national debt as a major goal of policy, pointing (in a way I suppose most economists would approve) to the more fundamental goals of economic stabilization and growth.

But if Governor Stevenson gets "A" on this section of Economics I, the conclusions he draws for current policy seem more doubtful. He is surely right that his old age, health, and education proposals can be financed over the long pull at present tax rates *if* other expenditures don't balloon and we maintain substantially full employment. For the immediate future, however, when inflationary pressures look to be considerable and that wonderful $600 billion GNP is still way around the corner, it may be less clear that several billions of additional spending without higher tax rates is compatible with stable prices.

But, reading between the lines, one has the suspicion that Mr. Stevenson doesn't really care too much if a little inflation is the price we pay, while Mr. Eisenhower, to judge from his actions and statements, cares a great deal. Of late, it has become stylish for economists to hold the position I attribute to Stevenson. After considerable investigation of the literature and some of the direct evidence on this problem, I wish to align myself in the "don't know" category, but also in the category of gratuitous advisors who recommend that both parties ought to send their economic intelligence in busy pursuit of a clearer picture of just what the effects of "a little" inflation are likely to be in the United States today. The amount of nonsense on this point in the literature, political and professional, is considerable.

3. This leads directly to the third difference — on the proper role of monetary policy. Stevenson begins by dutifully avowing that he is "all for using monetary policy . . . as one weapon in an armory of economic weapons," but then he lambastes with enthusiasm the Republican use of the weapon. "First, it hasn't worked; second, it has resulted in many difficulties and inequities." It has "played havoc with residential mortgage credit. It has created great difficulties for small business men and farmers . . . ," while it has had "no noticeable effect on large corporations." Moreover, injustice is apparent in government debt policy, since interest rates have moved up on market issues while the Treasury is still taking the small saver's money at 3 per cent on Series E bonds.

In short, Mr. Stevenson is against monetary policy because it *does* work. It shuts off credit to those who want to borrow. His main criticism, if he really wants any restraint, is that of discrimination. But no practical restrictive policy — through monetary, fiscal, or direct controls — can be completely non-discriminatory. Someone's spending must be pinched off, by the very definition of the problem.

Is it really true that monetary policy pinches off everyone except the big corporations, and lets them go unrestrained? While the evidence leaves much to be desired, Mr. Stevenson's argument here seems to be badly overstated, if not just plain wrong. He implies that only big business finances its expansion through retained earnings and that it has unlimited outside funds virtually for the asking. He would do well to look at the records of thousands of small businesses that have grown successfully through substantial reliance on retained earnings. He forgets, too, that much of our banking system operates almost entirely in the small business sector of the economy. To generalize from the obvious fact that the Chase Manhattan takes care of its big customers first is casual empiricism indeed. Even some of the giant banks, especially those with widespread branches, are clearly going out of the way to take care of their present small business customers — often through internal administrative arrangements that give branch managers a free hand on small loans but require all big ones to pass the scrutiny of a tight-money-conscious headquarters loan committee. He would do well, too, to look at the cash problems of many very prominent firms considering expansion. Money is tight for just about everybody — especially in such areas as mortgages where a lot of banks just don't want any more. The real discrimination, I think, is against weak credit risks, and especially against *new* borrowers in such times. Perhaps this is a serious disadvantage of a tight money policy. But it is a very different criticism from those thrown up by Mr. Stevenson.

Lastly, his point on discrimination against the small buyer of E bonds. It would be nice to give them 6 per cent. But if there is an argument for a higher rate here it must surely be to stimulate more purchases, not just "equity." With no pressure left on savers to buy E bonds, has individual choice ceased completely to be a guide to individual welfare, or does Mr. Stevenson just want the government to subsidize small-bond buyers?

The Editor's word limit precludes attention to interesting inter-party differences on tax structure and stimulation of savings and growth. In perspective, the Stevenson statement suggests that we have come a long way over the past quarter century toward economic literacy and understanding on the political scene, and that the economist's choice between the two major parties today, closer than it has been for many years, probably hinges primarily on preferences as to income redistribution through government intervention and how hard he wants to push the full employment margin.

III

Harry G. Johnson

I must at the outset disqualify myself as an expert commentator on Governor Stevenson's economic proposals, not having followed closely the recent policy debates in the United States. Perhaps this is not such a serious handicap: Governor Stevenson has an international reputation for the firm and vivid expression of liberal principles, and this statement is typically broad in its appeal. At any rate, I shall confine myself to fairly general observations, drawing to some extent on experience in Britain and elsewhere as a basis for comment.

My first reaction to the Statement was a sudden realization of how much a matter of fashion discussion of economic policy is — and of how quickly the fashion changes in response to current circumstances. Ten years ago, the threat of depression formed the background of policy discussion, to be quickly succeeded by the problem of inflation; in the past few years, economic growth has come to be in one way or another a reference point for economic policy. Correspondingly, policies formerly recommended on the grounds that they were "good for employment" or justified by the presence of unemployment, protection for the weak against inflation, or socially desirable in spite of inflation, have come to be recommended as "good for growth" or justified by the benefits of growth. The shift of debating ground is of course common to liberal and conservative (and indeed all shades of) opinion and has not been confined to North America.

The new emphasis on growth as the test of economic policy has its amusing aspects — British economists quoting German figures to show that Britain is investing too little, Germans quoting British figures to show that Germany is investing too much — and its disturbing aspects — eminent Western economists quaking in alarm at the spectacle of Russian growth rates. On the other hand, the recognition (embodied in this Statement) that sustained and substantial economic growth rather than stagnation is, or can be made to be, the normal condition of advanced industrial economies, is an important forward step in thinking about social policy.

In the context of a growing economy, rising public expenditure can be reconciled with rising private expenditure and even with lower tax rates. Even if social programs are regarded as luxuries, they are luxuries which can increasingly be afforded, and without requiring an absolute redistribution of income among the citizens. From a national point of view, however, such programs are often wise investments, justifying themselves by their ultimate effects on productivity (though this argument can be overdone by neglecting considerations of opportunity cost, as the Statement seems inclined to do).

So far, the Statement is soundly based on principle; controversy begins with the question of whether a significant proportion of the increases in output accruing in the immediate future should be devoted to increases in social expenditure. There are two major issues, one of principle and one of social will.

On the question of principle, it might be argued that social expenditure should be regarded as an inferior good, that rising national income should make it more possible to rely on private incomes and market methods to provide adequate housing, medical services, etc. I personally do not accept this argument in full, though as applied to the three major programs discussed in the Statement it is most convincing in respect of retirement income, especially if adequate public provision against illness is ensured — the demand for bigger pensions is a politically rather than socially compelling argument. On the other hand, a private health insurance plan does not seem an appropriate solution to the problem of adequate medical care, which arises largely from the incompatibility of the handicraft monopoly of the medical profession with the requirements of inexpensive mass health — a problem so far only partially solved in the British Health Service. Similar remarks apply to housing where subsidies of various kinds may merely aggravate the root problem of inefficient organization of the residential construction industry.

On the question of social will, five per cent or so of the increment of national income sounds like a very small extra price to pay for adequate personal security; but even this price can seem too high if the public feels it is already purchasing too many government services. Revealed electoral preferences apart, such a reaction is indicated by the real ineffectiveness of marginal tax rates in the upper income bracket, and the consequent need for a revision of the income tax base which is being canvassed on both sides of the Atlantic. The high level of taxation since the war is largely a reflection of heavy defense expenditure; but its effects on taxpayer behavior nevertheless mean that further extension of social expenditure will for equity's sake probably require tax reform sufficiently unpopular to influence opinion against the desirability of the expenditure itself. Stepping up the yield of any tax system inevitably creates inequities; a natural corollary is pressure to let the tax burden decline by retarding the growth of public expenditure.

In conclusion, I should like to comment on two minor matters. The first is that the tenets of financial orthodoxy seem to die very hard; the Statement favors reduction of the public debt as a general principle, even though in a growing equalitarian economy a growing public debt may be the only feasible way of providing attractive savings media for the mass of the population. The latter consideration suggests a cyclically deficit budget, and a higher level of interest rates than otherwise. The second comment underlines a paradox: while it seems obvious that tax reductions can be directed toward taxpayers in the lowest income groups by increasing exemptions or lowering tax rates in the lowest ranges, these measures in fact confer relatively more benefit on the higher income groups — as may be seen by considering the gross income subsidies equivalent to the tax reductions for the different groups. To avoid this, the proposed measures should be accompanied by still higher rates at the top of the scale. An alternative would be to retain the existing tax structure but give taxpayers in all income ranges an equal credit against total tax liability. (The ideal method, of course, would be an income subsidy with unchanged tax structure.)

IV

Lorie Tarshis

Governor Stevenson proposed a modest welfare program during the campaign and in this statement tried to show that its cost would not be excessive for the American economy. Actually, considering how very modest the program was to have been, it is difficult to recognize any real need for his statement. It would have cost about $10 billion in 1965, by which year our national output should be about $150 billion to $200 billion higher than it is today. Could anyone seriously argue that it would have strained the economy? Indeed it is nearly comical that "proof" had to be offered that the program would not result in economic disaster. But there is more tragedy than comedy involved if such a proof is really necessary, for it suggests either that the man in the street has lost all sense of proportion, or that the public relations experts of the Party were quite wrong in their judgment.

Probably there *is* a frightening lack of sense of proportion. We have not yet got used to big numbers. That we can gravely ponder whether we can afford such a program, or a decent educational system, or adequate foreign aid, to take some obvious examples, proves the point. And yet what are we to have in 1965, if not these, and much else? Thirteen million, instead of ten million still lower and longer automobiles? Or 15,000 instead of 12,000 new shopping centers? Or what? That Governor Stevenson feels it necessary to answer his question suggests that a shock treatment would have done more good than a dose of public relations syrup.

If the answer could not have been given in the word of General McAuliffe, then at least an intellectually honest answer should have been offered. Unfortunately, the statement does not provide it. The Governor was at pains to show that federal tax receipts could be expected to increase (by 1965, with no change in tax rates), by several times the cost of his welfare program. On the surface, this sounds important, but in fact it has very nearly nothing to do with the question. It is absurd to pretend that we can afford precisely what our tax revenues at present rates will finance.

Now, the Governor did not rest his case here. Indeed, he first suggested that since we shall have resources adequate to produce an additional output nearly twenty times as large as the welfare program itself required, then clearly we can afford it. But even this is not quite right, or rather if it is right, then we can afford almost anything. Actually, the question "Can we afford it?" is nearly meaningless, and what should have been asked instead is whether the program is desirable. What uses of our additional output would contribute more to our well-being?

But if Governor Stevenson has provided too weak an answer to one aspect of the question, he has jumped over another part too easily. His welfare program, given the distribution of functions between the federal and the state and local governments, would mean a significant increase in state and local expenditures. And in respect to state and local finances, the questions of tax revenues and borrowing capacity are decidedly relevant. Financial limits may operate in connection with programs which state and local governments are to undertake. If the Governor recognized this, then his answer — that the federal government should consider leaving such sources of revenue as the amusement tax to the states — is not convincing.

The welfare program proposed by Governor Stevenson was clearly one we could afford; to me, it seems desirable — though too small; and I am sure that arrangements to assist state and local finances could have been developed. But his statement in support is unconvincing, even though it is far superior to the know-nothing recipes that provide the basis for our usual diet every fourth October.