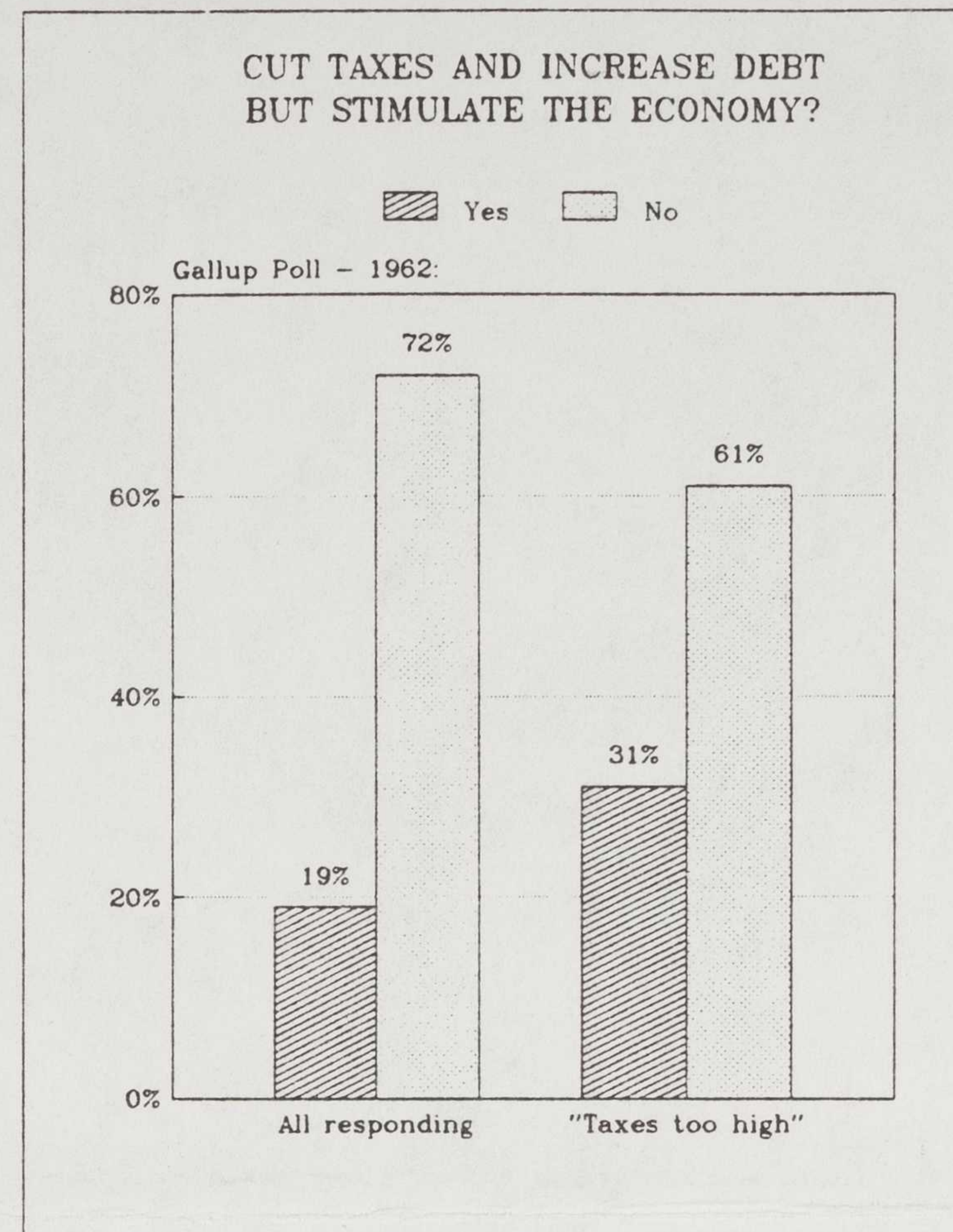


HOW WE WERE

"Throughout these [post World War II] years Americans consistently spoke as if they fully understood the difference between paying their own way and laying off their bills on their children, so much so that when Kennedy advocated balancing the government's budget on average over the business cycle but not necessarily in every year - so that there would be deficits during recessions, but surpluses during expansions to offset them - the American public was broadly skeptical, on what were largely moral grounds. ... Kennedy proposed gauging both spending programs and tax rates to levels that would deliver a balanced budget *if* ... two million of unemployed were at work. But everyone was to understand that in the depressed business environment of the day, taxes actually paid would fall short of spending.

"In the event, Americans' commitment to paying their own way was great enough that even this persuasive logic failed to command support. In the summer of 1962, when the Gallup poll asked Americans, "Would you favor or oppose a cut in federal income taxes at this time, if a cut meant that the government would go further into debt?" 72 percent of those asked said they were opposed and only 19 percent were in favor. Even among those who had responded to a previous question by saying that they believed taxes were too high, those opposed to cutting taxes if that meant putting the government further into debt outnumbered those in favor by 61 percent to 31 percent.

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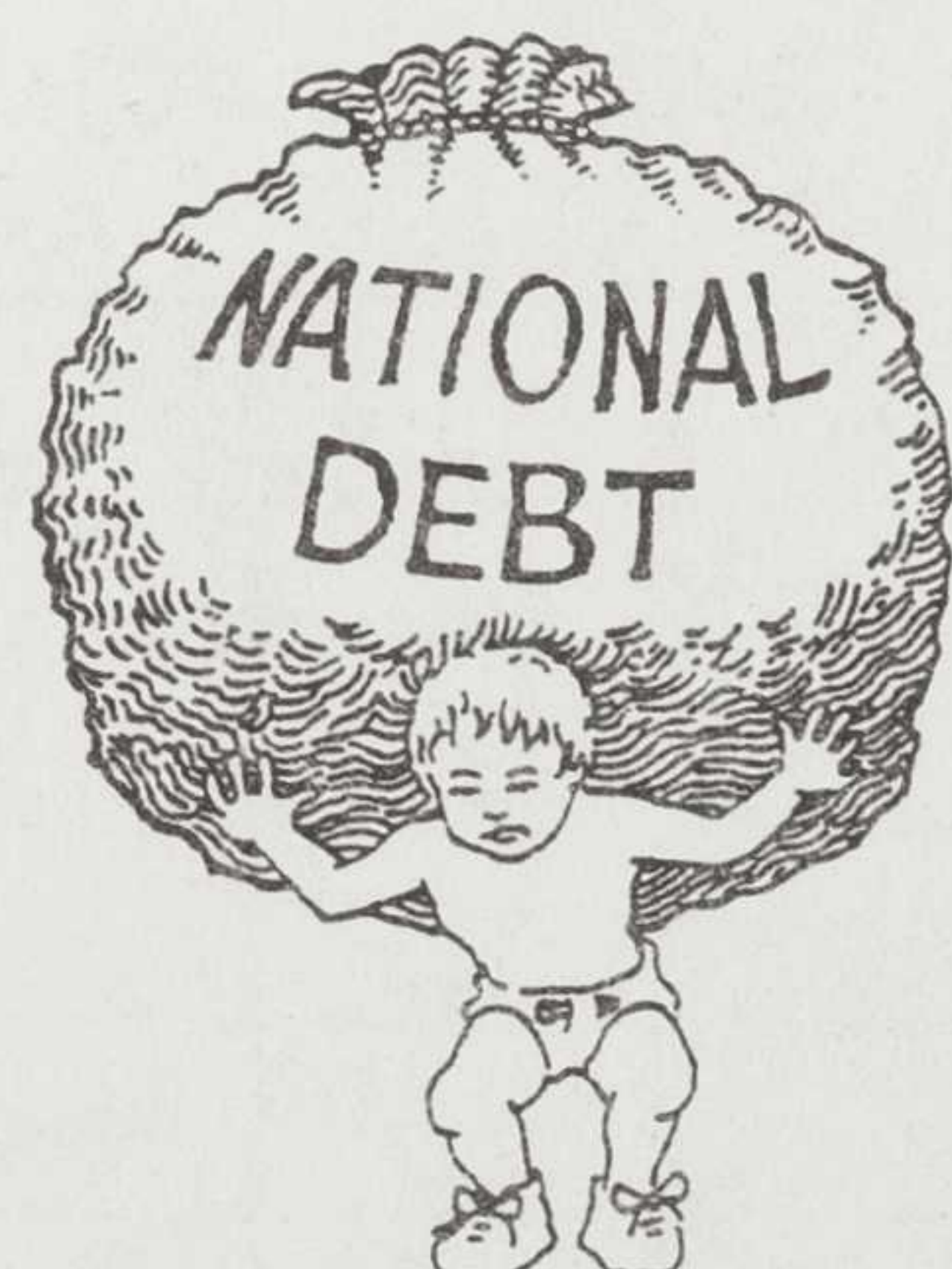


"What was necessary to sell the Kennedy tax cut was the further argument that more spending and less taxes would stimulate business and thereby help raise the depressed incomes and profits that had created the rationale for the deficit in the first place. ... Americans showed that they would accept lower taxes, leading to unbalanced government budgets, only if they believed doing so was in the public interest. To lower taxes simply to let people keep more for themselves, instead of paying for what their government undertook, never had much appeal. The moral imperative obligating each generation to the next was too strong."

Benjamin M. Friedman in *Day of Reckoning: The Consequences of American Economic Policy Under Reagan and After* (New York: Random House)

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