vided, monetary policy could be tightened further. This further tightening in monetary policy would be consistent with international balance-of-payments considerations.

This point I would like to emphasize very strongly, because you do not have to answer all of the horribly difficult questions in order to formulate policy. You simply have to develop the strategy that makes sense; and the strategy that makes sense under current conditions, if you have tight money policy, is certainly to move in the direction of greater ease in fiscal policy.

The major opposition to tax reduction is based on the fear that the prospective deficit would be increased; but this was the same argument used against a tax cut in the fall of 1957, and as a consequence, a deficit of $12.4 billion in fiscal 1958–59 occurred. This was the largest peacetime deficit in U.S. history, and under an administration that put budgetary balance as a No. 1 economic objective.

It is ironical that a major responsibility for the large deficit must be charged to Senator Byrd. Because of his insistence on the rigid debt ceiling in the fall of 1957, the Air Force did not pay its bills for a period. These actions aggravated the weak economic conditions in the summer of 1957, and precipitated the decline. The resulting fall in Federal Government revenues produced the $12.4 billion deficit.

We have the paradox that apparent fiscal responsibility had the effect of grievous fiscal irresponsibility. Let us not repeat the same mistake under the same arguments. Recasting the fiscal structure in favor of higher economic growth will diminish deficits, not increase them.

The central reason why a tax cut is called for stems from an historical accident. During the Korean war both the corporate and personal income tax rates were increased substantially to deal with the tendencies toward inflation that developed during the Korean hostilities. Those tax rates have never been reduced. As a consequence, since the inflationary pressures have subsided in the economy during the last several years, the fiscal structure that was developed to deal with the Korean inflation actually now inhibits the normal growth of the economy.

The current upswing is beginning to taper off with the economy significantly short of its full-employment potential. This is not a recommendation that the Government use its policies to prevent the economy from ever turning down. The factor that calls for action now is the realization that for the last several upswings the fiscal structure has been a brake on normal recoveries. As a consequence, reductions in taxes are called for, not simply to prevent a downturn, but to alter the fundamental fiscal structure.

A reduction in taxes is particularly called for because monetary policy has been stringent for the past several years in part because of balance-of-payments considerations. The Federal Reserve authorities argue for high interest rates so that money does not flow abroad in quest of higher earnings on deposits in foreign countries. Given that monetary policy is relatively tight and given that the fiscal structure has been inhibiting growth because it has been geared to a strong wartime inflationary economy, a reduction in taxes is essential.

We have the paradox that because our economy does not approach its full employment potential our Federal Government has been run-