though one must mention on the other side that the stock market crash is a new factor which may worsen the process of decline when it next occurs.

This mildness of recession militates against the use of fiscal policy. Decisions to pursue an expansionary fiscal policy have only come long after the signs of recession were clear, that is, when the inventory decumulation was fully underway and most statistics were declining sharply. A mild recession, even starting from a low point, does not produce unambiguous short-run indicators. Only a sharp recession does that.

What is important about the present situation is not the direction of movement in any particular week, but the long-term output in relation to the capacity of the economy. Our concern about the direction of movement has distracted us from the longer term deterioration of continued high unemployment and slow growth of the labor force, of low utilization of capital and squeezed profit margins, and of diminishing job opportunities in the face of a rapidly increasing number of young people entering the working age brackets.

If we devoted as much attention to the measurement of the actual trends of the economy as compared to the potential trends as we do to the identification of business-cycle turning points, our fiscal policy might be different.

Let me add I just received in the mail this committee's study of measurement of productive capacity, and I hope this marks a turning point in our focus of attention.

BUDGET BALANCING

Fear of deficits and the desire for an annually balanced budget is another major factor. This is not the place to rehearse all the pros and cons of the balanced budget, but let me point out two salient facts: first, if we really attempted to achieve an annually balanced budget in a deteriorating economic situation, it would plunge the country into depression.. Attempts to balance the budget by raising tax rates and cutting expenditures in the thirties were important contributory causes to the magnitude of that disaster.

Second, the only valid reason for favoring an annually balanced budget is the pressure which this principle puts on the President and the Congress to resist the many pressure groups that always want the Government to spend more money. That argument is clearly irrelevant in the present context.

If there is objection to a high volume of spending, a tax cut is much more likely to place a check on expenditures growth than stumbling into recession. A reduction in tax rates will force the Government to scrutinize expenditures more closely in the coming budget, while a recession, if recent history is any guide, will lead to a series of hasty new expenditure programs.

LINKING THE TAX CUT TO AN IMMEDIATE EXPENDITURE CUT

Recently, the idea has been advanced that a tax cut should not be enacted unless expenditures are cut at the same time. As a point of political strategy, of using this opportunity to insist on expenditure reduction, it is not a point for me to judge. But when the same