

point is offered by economists as policy advice, it must be judged on economic grounds. I do not doubt for a moment that the United States would be better off if certain lines of Government expenditures were substantially cut. I am also certain that my list would not be somebody else's list. We all have our own preferences about Government expenditures. But I fail to see any logical connection between the desirability of a tax cut which would permit business and consumer demand in the economy to grow in line with potential supply, and the necessity of reduction of Government expenditure programs as a precondition.

I cannot see why a sound tax policy has to await reform of the agriculture program, of veterans' benefits, of urban renewal, of welfare programs, of subsidiaries of business, of defense, or space, or foreign aid, or whatever programs are in the minds of the economists advocating this view. As a matter of general economic policy, the argument is clearly upside down. If expenditures were really cut—even foolish expenditures—this would be a reduction in purchasing power which would have to be offset by further tax cuts. The deficit that would be associated with a policy of joint expenditure and tax reduction would have to be larger than a deficit from a tax cut alone to achieve any given degree of improvement in output and employment.

RELATION TO MONETARY POLICY

Concern has also been expressed that the additional deficit which would result from a tax cut would force up interest rates, which might defeat the purpose of the tax cut. No doubt, a few more billions of deficit that have to be financed by borrowing will add to the demand for funds, and other things being equal, would have some impact on interest rates.

However, I do not believe that this increase in the deficit would in fact be decisive about the trends of interest rates in the coming months. I would not judge the situation heavily on the experience of 1958 and 1959 when a record cash deficit was financed while the money supply shrank, and when interest rates did, of course, reach record levels.

This time, the deficit presumably would be smaller and the money supply would be allowed to increase at some modest rate. Of course, the authorities will have to pass a judgment on the appropriate monetary policy in the coming year and on the methods of financing the deficit. But it is my belief that these decisions will be less influenced by the increment in the deficit that can be attributed to the tax cut than by our international monetary position weighed against the volume of unemployment.

TAX POLICY IN 1963

Let us begin to look ahead to the next moment of decision early in 1963, when, presumably, some tax cut will be made in connection with tax reform. It is now much too early to reach definitive conclusions about proper policy at that date; however, a few simple ideas might prove useful. First, the tax changes at that time must deal both with long-run and with short-run problems.