The United States cannot hope to approach the growth rates experienced in Europe and Japan during the last decade without a higher rate of investment, and we will not achieve a higher rate of investment unless businessmen expect growing markets for their products.

The lesson to be learned from the economic record of recent years in this country is that planning for a surplus, without regard to the strength of private demand, may very well produce unsatisfactory rates of employment and output and create deficits besides. When demand is strong and appears to be pressing hard on available resources, a surplus may be essential to insure balanced growth and stability in the general level of prices.

But when demand is recovering from a recession and when unemployment is still large and capacity still greatly underutilized, too vigorous a movement toward a surplus may repress the recovery and prevent the growth in output and income upon which the expansion of Government revenues was predicated.

In short, efforts to reduce the deficit too quickly are likely to be self-defeating.

Does this mean that the United States is doomed to have deficits for an indefinite period? The answer to this question cannot be given with any degree of certainty by responsible economists, simply because we do not know the strength of private demand out of the incomes that would be generated at full employment.

It is my own view that, at full employment, demand would be strong enough to require a surplus in order to prevent prices from rising, and that a full employment level of activity is likely to generate that surplus at the expenditure levels now contemplated, even with somewhat lower tax rates than those now in effect.

But to reach full employment, we must first remove the restraints under which the economy has been operating in recent years. Except for an easy money policy which is ruled out because of our balance-of-payments problem, no other policy is available to restore our economic momentum than fiscal policy.

POLICIES TO RESTORE ECONOMIC MOMENTUM

Private demand can be stimulated through fiscal policy either by increasing expenditures or by reducing taxes. Congress is now completing action on the President's expenditure requests for this year. These requests contemplate a rise in Federal expenditures (as measured by the national income accounts) amounting to $5.8 billion in fiscal year 1963. Further expenditure increases of any substantial magnitude would require considerable advance planning as well as congressional action and would therefore not be effective soon enough. Expenditure policy should, in any case, be geared largely to the long-run needs of the economy and to the demand for public services.

Under the circumstances, tax reduction would be the best and most effective method of providing a strong and immediate stimulus to the economy. In the past, consumers have consistently spent about 92 or 93 percent of their disposable incomes. There is no reason to suppose that they would respond very differently to the added take-home pay from a tax cut than they would from a straight increase in their wages. (In fact, as a result of withholding, the additional take-