

likely to level out again in the latter part of this year; quite conceivably, there may be another minor setback in late 1962 or early 1963.

In these circumstances, with output currently perhaps \$30 to \$40 billion below what could be produced with an unemployment rate of 3 to 4 percent, and with the clear prospect of a widening gap between actual output and potential full capacity output as potential output increases as a result of rising productivity and a rising labor force, the need is for a sharp expansionary stimulus.

The question remains of the form which this stimulus should take. It could either be introduced by monetary measures or by fiscal measures; the latter could take the form either of tax reductions or of increases in Government expenditures.

In the present situation where a substantial and quickly operating stimulus is needed, the choice should be for tax cuts. The effect of increases in Government spending would be slow to operate, because of the lengthy legislative and administrative procedures. It is doubtful whether monetary measures, such as interest rate reductions, could have as large an effect as seems to be necessary. The important need is to act in time. If action is delayed until a downturn has started, the necessary measures will have to be all the stronger.

And it is clear from British experience, where fiscal measures have been used on many occasions since the war to influence the domestic situation, that tax changes do have a marked and relatively rapid effect in altering expenditures particularly by consumers.

It, therefore, seems to me most unfortunate if no decision is taken to reduce taxes substantially and immediately. It would be unfortunate in terms of the American domestic situation. It would also be unfortunate for the rest of the world, whose economic growth and prosperity is closely dependent on that of the United States. There is evidence to suggest that, in present circumstances, the prices received by the underdeveloped countries for their own material exports show a tendency to fall, unless production in the advanced countries as a whole is rising at around 5 percent a year.

If American production, which accounts for about two-fifths of the total, stagnates or declines, it is most unlikely that this average of 5 percent can be achieved, since it would imply phenomenally rapid expansion in the other industrial countries. Rather, the effect of a slowdown in the United States would be to slow down growth of production in the other industrial countries.

Certainly, I should expect that a new setback to American expansion would greatly reduce the chances of expansionary policies in the United Kingdom, because of our heavy dependence on import earnings from the North American market. It seems clear, then, that if nothing is done domestically in the United States, the effect will be further declines in primary product prices and a new upset to the precarious payments position of the underdeveloped countries, together with a slowing down of industrial expansion in Western Europe.

None of this would be in the interests of the free world. We have learned to run our economic system well enough to disprove the Marxian thesis of the inevitable capitalist crisis; we must now learn to demonstrate that it is also wrong to suppose that our economic system suffers from chronic anemia.