There appear to be two main arguments against a decision to take this expansionary domestic measure in the United States. One of them is wholly illogical and unjustified; the other does possess a certain logic, but it is still bad. The first argument is that a budget deficit must be avoided at practically any cost. The second argument is that domestic expansion would further weaken the international position of the dollar.

The budget deficit argument is wholly unjustified. It is difficult to understand why it still has such a stronghold, except on those people for whom all Government expenditure is wholly bad. Other transactors, such as industrial firms, are perfectly willing to run budget deficits and to increase their debt if the purpose is worthwhile.

Equally, there is no reason why the whole of Government spending should come out of current Government income; after all, much of it is devoted to strengthening the future of the country's economy, by building roads, providing education, and acquiring technical knowledge on matters of defense. And when the effect of an increased budget deficit would be to increase total spending in the country and so to use the whole of the Nation's productive resources instead of leaving many of them underutilized, the effects of the outworn and irrelevant dogma of balanced budgets is wholly to the bad.

The correct rule is to insure that the budget deficit is not so large as to increase demand to the point where there is overstrain on the Nation's capacity to produce. Of that, there is no current danger.

The second argument against increasing domestic expenditure, income, and output is that of the danger to the balance of payments. This argument has a certain logic, but is still not defensible. It can be developed in four possible ways. One is that expansion would reduce international confidence in the dollar. The second is that one of the ways of inducing expansion, namely reduction of interest rates, would increase the net capital outflow from the United States. The third is that expansion would increase American exports prices, and reduce the competitiveness of American exports. The fourth is that expansion would increase American demand for imports.

The first line of argument—that about confidence—is of relevance in a world where many people are not as sophisticated as one might hope. There are, indeed, many people who would believe that a budget deficit in the United States automatically implies that the dollar is suspect. As has been argued, the question of whether or not to have a deficit depends not on dogma, but on circumstances. But while many people are not so enlightened as to see this, the right policy is to carry out the correct domestic policies and at the same time to take other steps, which I shall consider later, in order to restore confidence.

Let us turn to the second question, that of the effect of interest rate reductions on capital movements. It is, in fact, true that a cut in American interest rates would almost certainly increase the net capital outflow, and this is strong reinforcement to the argument that domestic expansion should be encouraged by tax cuts rather than interest rate cuts. Already, the general level of interest rates, particularly on short-term paper, can be seen to be low in the United States compared with Europe, if account is taken of the choices effectively open to commercial operators.