I do not think that one should be afraid of a budget deficit within certain limits and provided that it is financed from savings with little resort to bank credit.

In the conditions described above, which are the U.S. conditions at present, the danger is not inflation, but deflation, in spite of any contrary appearance.

The immense productive capacity of U.S. industry lies, at the moment, for a large part idle because it is geared to produce goods whose supply is already abundant. The Government should help to deblock this situation by starting a large program of output consuming activities, even at the cost of a budget deficit, at the beginning. Later this deficit will be reduced or disappear automatically, as increased economic activity will bring in large revenues.

4. However, by so doing, the international position of the dollar, already weak, might be weakened even more. So one must turn now to this other aspect of the problem and if possible find a way of separating the effects of domestic fiscal policy from the international position of the dollar.

5. The dollar at present is weak on the international markets. This is a fact. But why is the dollar weak? Is its weakness justified?

In my opinion the weakness of the dollar is entirely artificial and stems exclusively from the fact that, in spite of any denials, many people believe that the dollar price for gold can and may be raised.

In this country I know that every President and administration since 1934 has said that without an act of Congress your price of gold cannot be changed and that they were all against a change in the price of gold.

In the minds of people who deal in your dollars the risk does exist. They feel that if you do not change the price of gold you may refuse to exchange gold for dollars. Many of those who hold your dollars feel that history teaches that all devaluations have been officially denied up to the last moment.

So denials are useless and perhaps even have a contrary effect. Since, on the other hand, there is no risk that the price of gold will be reduced by you below $35 an ounce, it is natural that people should tend continuously to change some of their dollars into gold.

If this is true, the only way to strengthen the dollar is to dispel as definitely as possible, by some deeds, rather than mere denials, the fear that there will be an increase in the price of gold.

Until this fear about the increase of gold is definitely dispelled, any other attempt to correct the balance-of-payments situation will probably remain unsuccessful.

What could be done then? We must distinguish at this point the possibility of a devaluation of the dollar against all other currencies from the possibility of a general increase in the price of gold, leaving the exchange rates between currencies unchanged.

The first case, the devaluation of the dollar against all other currencies, is very unlikely to happen as a devaluation of the dollar would be followed almost automatically by similar devaluations of all other currencies.

However, even if we assume that it could happen and the United States were prepared to guarantee the present exchange rate to the foreign holders of dollars, this would not solve the problem. For it