

I am not an economist. I think the two gentlemen on the Panel are much more entitled to comment on this.

Senator PROXMIRE. Mr. Niehans has agreed with you already and Mr. Day more so than I would.

Let me ask you, Mr. Day, you call wholly illogical and unjustified the argument that a budget deficit must be avoided at practically any cost. Certainly I would agree in a serious depression or in a period of national military emergency budget deficits can be justified.

You seem to follow a line which would abandon the usual kind of compensatory fiscal spending notion, that is, that you balance your deficits in periods of recession with your surpluses in periods of prosperity.

You throw that aside, as I judge what you are saying. Instead of that you say the deficit should be strictly concerned with utilization of resources; is that correct?

Mr. DAY. With that and the point that I could not develop in the paper; namely, with the general desire of balance between how much Government spending you want to do, how much you want to spend on roads and schools and the desired level of taxation. But granted those things, I would say that the budget deficit depends simply how near you want to come to full employment..

If you are in an inflationary situation the right policy is to reduce the deficit. If you are less than fully employed the right policy is to increase your deficit or to reduce your surplus.

Senator PROXMIRE. But we have a larger national debt as you know than all the countries of the world combined by quite a margin. It is over \$300 billion now. Service costs on that debt is the second largest cost to the Government, second only to military costs. If you adopt this policy you propose we lose all effective discipline on spending and all real incentive for being careful in spending.

You also tend to have a misallocation of resources. As your debt gets bigger and bigger your Federal taxes become bigger. In one way or another you tend to discourage incentive.

Mr. DAY. You say there would be a misallocation of resources. I suggest that the most serious misallocation of resources is not to use useful resources. Indeed, it is true that your national debt is very large. Ours is as well in relation to our national income. The countries with relatively low national debts are the countries which in a sense had the good fortune to lose wars and, therefore, the debts were written off.

The source of large debts has quite predominantly been war, both in your country and mine, and I think this would be true of almost every other.

The increase of the national debt that would result from the sort of budget deficits that I would advocate, in the order of perhaps \$10 billion a year, the effect of this, considering the whole size of your national debt, would, in percentage terms, be trivial.

At the same time you say, well, the debt nonetheless is piling up. While the debt is piling up, your productivity is, however, rising 3 percent a year. A debt increase a fraction of 1 percent a year can easily be serviced where national income is rising perhaps at 3 percent a year.

Senator PROXMIRE. My time is up but I would like to ask one more question.