dollar. The average rate of growth of production per head has been lower than that of practically any other major industrial country except Britain. There has been a series of business cycles, in which each upswing has tended to be weaker than the last: the recent recovery has not carried unemployment below 5 percent. The low rate of growth has tended to diminish the stature of the United States in the world. It has been a drag on world trade; if the U.S. economy had grown faster, world trade would have grown faster; the incomes of the primary producing countries would have been less depressed.

The poor production and employment record in the United States are the result, in the first instance at least, of an inadequate growth of demand in real terms. Production has not been limited by capacity; if demand had grown faster, production and employment would have been higher. In saying all this, I as an Englishman am painfully aware that our record is little better.

THE REGULATION OF DEMAND

The inadequacy of demand in the United States seems to have been the result of an excessively rigid fiscal policy. Credit policy has been actively used to regulate demand, but it has not succeeded in outweighing the restrictive effects of fiscal policy. This is not surprising. In the light of postwar experience, most European economists would now agree that fiscal policy, as well as credit policy, must be used to regulate the general level of demand, if full employment and expansion are to be achieved. Many of them, of whom I am one, would hold that fiscal policy is the more powerful of the two and must be the main instrument.

Present economic forecasts for the United States seem to suggest that the general level of demand and production will at best be stable in the period ahead and may well turn down. Since the economy is far from full capacity and unemployment stands at 5 percent, I would judge that a substantial cut in taxation and/or increase in public spending was needed now if full employment and expansion are to be achieved. As in steering a boat, it is generally best to take corrective action early, the more so if you are already some way off course.

The main objection to a tax cut appears to be the dogma of the balanced budget. The committee will be familiar with the fallacies of this dogma, based on analogies with individual housekeeping. Presumably, it can be successfully refuted only by education and courageous leadership. If reassurance is needed as to the effects of flexible fiscal policies, the experience of Europe in the past decade may be helpful. Most countries have pursued flexible fiscal policies, more or less explicitly. They have mostly achieved higher rates of growth than the United States, and the degree of inflation they have suffered has not been substantially different from that in the United States.

This is an important issue. It would be distressing if the United States were to suffer a recession and if the economic progress of the West were to be impeded by popular adherence to a defunct dogma. The attraction of the dogma is its simplicity. Like other false dogmas of ravishing simplicity—the world is flat, the sun goes round the world—it may be hard to unseat. But it must be unseated if the world is to progress.

THE EXTERNAL BALANCE

The only argument of any force for opposing reflationary action seems to be that it might worsen the balance of payments and so lead to a flight from the dollar.

Seen from Britain, the present external position of the United States does not look too bad. There has been a sizeable current surplus during the recovery, despite the fact that there was probably some stock building of imports. Government expenditures abroad are still being pruned. The export drive got underway only recently. Moreover the gold reserves of the United States are still very large if one counts in the large part of the reserves that is formally tied as currency backing. This is true whether they are judged by absolute size, by their relationship to imports or their relationship to foreign liabilities. The trouble is that the effects of an overall deficit are liable to be vastly amplified by speculation. That threat considerably nullifies the value of the reserves. And there is little doubt that an expansionary policy which carried the U.S. economy closer to full employment would have an adverse impact on the foreign balance—and even a small impact of this kind, unless compensated by other developments, would be enough to excite the speculators.