

retical large surplus that would be generated at full employment, we find ourselves with further deficits.

Part of the solution to this problem can be found in reducing the total tax load on the economy. Another part can be found on developing a tax structure that will increase private initiative and productive investment. The structure of taxes—as well as their level—affects incentives to work, to invest, to cut costs, and to produce efficiently.

Thus tax reform is just as important as tax reduction. Such a program necessarily involves a loss of revenue in its first year of application, but this initial loss of revenue should be soon recouped as our economy moves ahead. It should be looked upon as a necessary downpayment on economic growth, more jobs, and higher standards of living and greater opportunity for all Americans. More rapid growth will hold and attract funds here, that might otherwise be invested abroad, and rising investment will make our producers more competitive in world markets. Both of these effects will serve to improve our balance of payments.

Fear of deficits is deeply rooted in our thinking—and that fear has its basis in the fact that deficits have sometimes led to excess demand and inflation. But in today's economic environment—far from being a source of dangerous inflationary pressures—our deficit reflects our idle plant capacity and our overly large unemployment rolls. A temporarily larger deficit under these circumstances is a reasonable price to pay for a program of basic tax reform and tax reduction designed to spur output and promote full utilization of our human and physical resources, a program that promises over the years to generate increased Government revenues as a result of increased output.

Finally, even with the enactment of such a program, we will also need a measure of tax flexibility, in order to strengthen our arsenal of tools to combat cyclical downturns. Legislation providing this flexibility, patterned on a recommendation of the Commission on Money and Credit, has been submitted to the Congress by the President. Its enactment would strengthen our ability to handle future downturns.

Monetary and debt management policy, which affects the cost and availability of credit, is another area in which the Federal Government can exert a powerful influence on economic developments. The main responsibility for monetary policy lies, of course, with the Federal Reserve. But the Treasury—largely through its management of the public debt—can also significantly influence the cost and availability of funds.

Difficult and new problems have arisen in this area over the past 18 months. On the one hand, the Federal Reserve and the Treasury together—and I want to emphasize the continuous cooperation and close working relationships that have developed between these agencies—have had a common interest in assuring the availability of an ample supply of funds to finance domestic investment. But we are also alert to the potential danger of investors shifting their funds abroad in search of higher returns—thereby increasing our balance-of-payments deficit.