many economists before the administration could make any effective response. The President has tried to suggest that a decision against a tax cut this year only involves a delay of a few months and has promised that next year's reduction will be retroactive to January 1, 1963. But even if the new Congress is more tractable than this year's and quickly passes a tax measure, it is hardly likely to do so before next June. Consumers and businessmen don't increase their spending very much because of income they may or may not get at some future date. Retroactivity will in effect increase the size of the cut, but its economic consequences won't be felt until it is actually signed into law.

Moreover, Congressional delay over the tax-revision bill of 1961 does not argue for fast action next year. There is good reason to believe that a sweeping reform bill, even coupled with sweetening tax cuts, may not pass until 1964, if then.

Faced with the prospect that the needed tax cut may be two years off, the White House aides and even Secretary Dillon are changing their priorities. The concern with reform, a principal reason for Dillon's opposition to a tax cut this year, is diminishing. Treasury officials have recently been trying to determine how much reform could be loaded onto a tax cut without slowing its passage through Congress next year. In the past, the Treasury had been thinking about how much of a tax cut was needed to get the reforms through. But as the reforms are shelved in the interests of a speedy tax cut, one of the most persuasive reasons for not requesting it this year vanishes. In the end, the President is likely to get a belated but sizable reduction with very little consequential reform.

If Mr. Kennedy himself had determined to cut through the economic myths he ridiculed at Yale and to ignore the extraneous consideration of the July economic indicators, had boldly taken the lead in a drive to push a prompt tax cut through Congress, would he have succeeded? Senator Humphrey thought he might have. Others in the White House did too. But Mr. Kennedy did not try, so no one can say for sure.

The Defense of the Dollar

M. J. ROSSANT

The President has been worried about the dollar ever since he took office. Indeed, his concern over the dollar's standing in the international financial community has served as a brake on measures that might have been taken to stimulate the sluggish domestic economy. The administration's unwillingness to promote faster growth through a tax cut, for example, is based at least in part on the fear that a larger deficit might endanger the dollar. At the same time, the administration is reluctant to take bolder action to strengthen the dollar by raising interest rates for fear this might jeopardize the advance of business.

In other words, Mr. Kennedy and his colleagues have yet to work out a satisfactory balance between fiscal policy, which has to do with taxes and the level of government expenditures, and monetary policy, which has to do with the availability of credit and the level of interest rates. Ideally, of course, the two are supposed to work together, like two oars on a boat, to keep the national economy moving straight and steady ahead.

Actually, there is less reason for indecisiveness than there was a year ago. The determined effort to strengthen the dollar has been quite a success, and this has increased Mr. Kennedy's freedom of action. Indeed, it seems clear that he could now take a bolder initiative than he has yet shown in dealing with the domestic economy.

The success in strengthening the dollar can be credited almost entirely to the Treasury Department. Happily free of Congressional restraints and vetoes, it has demonstrated a flexibility and ingenuity in the dollar's defense that have not been matched in domestic economic policy.

The main thrust has been aimed at cutting down the deficit in the nation's balance of payments, which measures the total inflow of funds into the United States against the total outflow abroad. A deficit has been registered each year since 1949 with the single exception of 1957, when the Suez crisis brought a surplus. In the earlier years of the 1950's the deficit was the direct result of Washington's desire to promote the recovery of Europe and increase world trade. But although European recovery was well under

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way in 1958, the deficits continued to mount sharply. For the three years ending in 1960, the loss totaled more than $11 billion. Foreign governments and central banks became alarmed and started shifting increasing portions of their huge hoard of dollars into gold.

Mr. Kennedy's declaration on entering office that he would defend the dollar brought an easing of pressure. The deficit, which had amounted to $3.9 billion in 1960, was reduced to $2.5 billion. This year, the deficit has been whittled down further, with the outflow pared to an annual rate of $1.5 billion in the first six months; and according to Robert V. Roosa, Under Secretary of the Treasury for Monetary Affairs, this is even better than expected. Both Mr. Roosa and Secretary Dillon are confident that the deficit will be eliminated entirely by the end of 1963.

The improvement to date is due more to the combined impact of many small measures than to any single big step. Exports have been promoted; the Pentagon has cut down on its purchases abroad; foreign countries have been prepaying their debts; an increasing portion of economic aid is in a "tied" form that provides goods rather than funds; and short-term interest rates have been maintained at a fairly high level in order to discourage an outflow of funds to even higher-yielding markets abroad.

Although the foreign press, which seems to derive special satisfaction from dollar baiting, has skeptically suggested that the decline in the payments deficit can be accounted for mostly by large prepayments of debts, the administration should have no trouble withstanding these barbs. Over the past eighteen months, with the co-operation of the European central banks, finance ministries, and the International Monetary Fund, it has built up a defense in depth against private speculative runs on the dollar.

Such co-operation is based on self-interest, for the Europeans know that the collapse of the dollar would be a calamity for them as well. Not only would they take heavy losses as a result of their huge dollar holdings, but their export trade would also stand to suffer since devaluation of the dollar would in effect lower the prices of American goods on the world market.

The Source of Doubt

Mr. Kennedy's campaign to defend the dollar has certainly gone well so far. But it would be a mistake to assume that Europe's co-operation and the constructive measures being taken to reduce the deficit will necessarily provide ironclad guarantees of the dollar's future. Quite apart from the payments deficit, the dollar is sure to be under severe pressures whenever there are serious doubts about the basic strength of the U.S. economy.

These doubts exist. Although European central bankers are convinced that the payments deficit is being

brought under control, they question whether confidence in the dollar can be restored without a marked acceleration in the growth rate of the U.S. economy. In the last analysis, funds flow to those nations which are growing fastest in real, non-inflationary terms for the simple reason they offer the most promising opportunities for investment. That has been one of the important lessons of Europe's economic renaissance.

Although the balanced budget is worshiped as an end in itself by many Americans, even the most conservative Europeans have no qualms about unbalanced budgets. The basic tenet of the Europeans' orthodoxy is that inflation must not be countenanced, a position that stems from their frequent bouts with ruinous debasements of their currencies. Yet this does not inhibit them from advocating the deliberate unbalancing of government budgets by lowering taxes or increasing spending, provided that the ensuing deficit is not financed by inflationary means. Nor are they disturbed by fears that domestic deficits will necessarily increase their payments deficits by stimulating an outflow of funds. The Europeans have had long experience in concocting combinations of fiscal and monetary policies to keep their national economies moving ahead on course. They are convinced that fiscal policy can be relaxed to produce a deficit that will stimulate growth, provided that monetary policy is tightened to guard against currency runs as well as the threat of inflation.

For a time it seemed as if the European approach might get a trial in the United States. It had a certain number of advocates among administration advisers and clearly fascinated the President himself. In the early part of the summer, in fact, Mr. Kennedy dispatched Walter Heller, his chief economic adviser, to Paris, rather like a latter-day Columbus in search of the gold of the Indies, to study Europe's economic "miracle" at first hand and bring back its secret.

On his return to Washington, Mr. Heller found that the reluctance to experiment had increased. Both in Congress and in the White House itself a native aversion to budget deficits is still prevalent. There is also a strong resistance to tightening credit, based on the fear that a rise in interest rates would stifle the domestic economy.

The President has been much influenced by Secretary Dillon, who believes that tax reform, as well as tax reduction, is essential, and who does not want to become embroiled in a fight with William McChesney Martin, the head of the Federal Reserve Board. Martin and Dillon compete for the title of apostle of discipline and defender of the dollar; and though Dillon is the bolder, he cannot go too far out on a limb on taxes because Martin, who has effec-

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tive control over credit policy, could saw it off. Indeed, Martin warned that in the event of a tax cut the Treasury would have to finance the deficit by selling bonds to the public, a device that would only serve to nullify the stimulus of the tax cut by absorbing a good deal of the money thus put in circulation.

Against this background, the administration finally turned down the idea of experimenting along European lines.

THE ADMINISTRATION is probably right in believing that the dollar might have been seriously weakened if it had sought and failed to win approval of immediate tax reductions. In any event, the dollar is in no great danger for the time being and the economy should manage to continue its sluggish advance.

If there is a downturn in economic activity at a later date, however, the administration would be in trouble—indeed, in double trouble, as the Europeans see it. For it would then face the threat of a renewed flight of the dollar without having had the benefit of any substantial growth in the economy. Furthermore, the emergency steps that Washington might then have to take to stem the outflow—such as establishing a crisis level of high interest rates—would also contribute heavily to the economic decline by discouraging new investment and capital spending, and so, in the longer term, provoke a renewed loss of confidence in the dollar. There is no question that the dollar could be successfully defended for a limited period, but this would produce no lasting solution.

The administration still has time to use its powers to strengthen both the dollar and the economy. It should begin by recognizing that in these days no currency, including the once invulnerable dollar, can avoid being tested by stiff and constant competition in the international financial markets. Today economic growth alone can defend the dollar. The President himself, though he did not choose to stress the point during the tax-cut debate, has stated the issue clearly: "Economic progress at home is still the first requirement for economic progress abroad."

The Troublesome Legacy Of Styles Bridges

DOUGLASS CATER

FOR NEARLY a quarter of a century, many aspiring to political fortune in New Hampshire paid their homage and frequently served an apprenticeship to Senator Styles Bridges. Though Bridges, the Senate's ranking Republican, died last November, the power of his name lingers on. In the Republican primary on September 11, Bridges's widow and six others who worked for him in one capacity or another are laying claims to high elective office. All but one or two of them base their campaign pitch on the need for continuing what his widow calls "Styles Bridges Republicanism."

The vacancy left by Bridges in New Hampshire politics has set friend against friend and may even have created opportunities for non-Bridges Republicans, not to mention the Democrats. Doloris Bridges is competing for the seat her late husband held in the Senate for twenty-four years, campaigning against the state's two congressmen and a protégé of Governor Wesley Powell, who in turn was long an assistant to the senator. Powell himself is being challenged for the governorship by another former Bridges man, John Pillsbury. And a raft of candidates who once served Bridges are battling for the two seats in Congress.

The feuding started only hours after the Senator's death, when a loyal Bridges supporter, William Loeb, owner of the Manchester *Union Leader*, the only paper with state-wide distribution, inaugurated a drive to get Mrs. Bridges the interim appointment. But Governor Powell, though paying fulsome respect to the deceased, named instead a thirty-four-year-old newcomer to politics, Maurice J. Murphy, Jr., who only the previous month had been appointed state attorney general. The uproar was instantaneous. Publisher Loeb, a supporter of Powell during his numerous tries for elective office, turned on Powell and Murphy with a vengeance.

Various explanations are offered for what caused this rupture. Powell says somewhat guardedly that he did what he thought was right "by our state and by our country." Loeb claims that Powell wanted the Senate seat himself but didn't have the guts to claim it and now is afraid to run against Bridges's widow. Undoubtedly it had to do with the conflicting ambitions of those who claim the Bridges legacy.

POWELL, like Bridges, is a man of humble origins. He entered politics after a try as a lay preacher. It wasn't an easy entry. After serving a ten-year apprenticeship as Bridges's administrative assistant, he twice tried unsuccessfully for the Senate and twice for governor before he finally won by a 396-vote plurality in the primary of 1958.

Powell's ambition has not waned in office. During his second term, he has consolidated his power by bringing the state bureaus more directly under the governorship. Now that he is seeking an unprecedented third successive term, his opponents accuse him of building the kind of machine in the state that neither Styles Bridges nor anyone else had attempted. Powell has regularly shown a petty zest for ceremony. In 1959, when Vice-President Nixon paid a ceremonial visit to New Hampshire, Powell rode at the head of the procession in solitary splendor rather than compromise over who would sit with whom. More recently, he decreed that the state highway police, newly reorganized and newly uniformed, would henceforth be obliged to salute him.

Powell's ambitions go beyond New Hampshire. At the Republican national convention in 1960, he sought the Vice-Presidential nomination,

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