

and prices in the United States, expansion of incomes or increases in wages and prices in surplus countries.

Having excluded U.S. deflation as a way of correcting the disequilibrium, let us tentatively make three more exclusions. Leading surplus countries are not in a position sharply to increase their domestic incomes and expenditures without causing inflation, and a burden to inflate ought also to be excluded from our rules of the game. U.S. devaluation is a step to be avoided, if this can be done without deflation, because of the status of the dollar as the leading international reserve currency, as the pivot of the international financial system. Finally, we are reluctant to impose trade and exchange restrictions, as that goes against the trend toward liberalization that we have fostered.

Still this does not leave us without resources to correct disequilibrium. Logic requires that if the dollar is the center of the universe and cannot be devalued, or its access or use restricted, then the adjustment must be made on the other end. If we can make no adjustments to combat payments deficits because we are the center of the universe, then the planets must adjust to us.

If we cannot impose trade restrictions, then other nations must ease their import restrictions and export subsidies sufficiently to restore equilibrium to the system. If we cannot tighten capital restrictions, then others can achieve the same effect by easing theirs. If we cannot devalue, then surplus countries can increase the values of their currency in relation to the dollar. To achieve such adjustments will not be an easy political task, for not only the existing system but the gold standard in practice had a deflationary bias in that surplus countries were disposed to avoid adjustments, putting the full burden on the deficit countries.

But the logic of the system requires this approach. If the surplus countries will not so behave as to keep the system in equilibrium, then the key currency countries when in deficit must be expected to devalue, or to impose trade and exchange restrictions. In the absence of this, the system would impose a systematic burden of deflation on the key currency countries. If other countries when they have a deficit can devalue against the key currency countries and can impose trade and capital restrictions, and then can neglect to make any adjustment when they have a surplus, obviously the cumulative effect of these actions must be offset by deflation in the key currency country. Such a system surely is not going to work, and the sooner the issues are faced, the better.

It has not been past practice for surplus nations and those in a balanced position to assume responsibility for making adjustments to bring the system and the position of the key currency into balance. The United States has at times in the past been a very bad offender in this regard. However, it is only through this means that a more drastic reform can be avoided. If such a reorientation of the system is to be achieved, this can be done only through forceful U.S. leadership.

In recent statements by U.S. policymakers, I do not see a recognition of the necessity for this. Rather, they seem to have acquiesced in and supported the asymmetry and illogic of past arrangements by proclaiming that the major responsibility for correction of the U.S. balance-of-payments deficit lies with ourselves. A reorientation of the