

for twice as much imports from the United Kingdom as we do, and in third markets it is my feeling that the heightened U.K. competition will be felt more by German and other continental exporters than by us.

It is true that in Canada, and in Australia, the third market competition is going to be felt mainly by us, and it is true that in the Far East it is going to be felt mainly by Japan.

Because the greater part of the improvement in the British balance of payments is through a reduction of the surplus of the European surplus countries, then although our deficit remains, the world pattern of payments will be much improved. By reducing the European surplus, their objection to activating the reserve plan ought to be lessened.

Now, if on top of that we get some more strength in our balance of payments—and remember we cannot afford to absorb the initial impact of the British devaluation on us, we have to pass it on to the surplus countries—then I think we would really have improved considerably the environment for activating this new scheme.

Senator PROXMIRE. Dr. Harrod, you had quite a critical reaction, as I recall, to the devaluation in 1949. What is your reaction as far as the effect on the activation of the drawing rights is concerned?

Sir ROY HARROD. Talking about the British devaluation only?

Senator PROXMIRE. The current British devaluation.

Mr. BERNSTEIN. Its effect on activation.

Sir ROY HARROD. I should think it ought to have a good effect, and for the reason that Dr. Bernstein has mentioned, namely, that it does reduce the world reserve, that part of it held in sterling, which has lost something of its dollar value.

I hope that what we have just heard, the optimistic account of the act of the British devaluation on balance of payments, is correct. I hope it is. I mean I do not profess to have studied the figures in the last 2 or 3 days.

My general experience is that you do not get the full benefit of the devaluation right at once. It may take some time. But I may say that I would rather not have had this devaluation, mainly for internal reasons.

It is going to set up inflationary pressures, it is going to make our incomes policy on which we were having success more difficult. It is against one objective of policy, namely, price stability. It is price-inflationary.

Furthermore, I think the British balance of payments would have come right without it.

Now, I cannot quite see how one can be optimistic as regards the United States, because, after all, the British and Americans are the great competitors around the world against each other.

The British have given themselves—I ought not to say they have “given” themselves, because the devaluation was forced on the British; they certainly did not want to do this, not right up to within a matter of days. They did not want to do this—but they have given themselves a competitive edge of 14 percent against American exporters. Isn't that bound to have an adverse effect?

Mr. BERNSTEIN. First, Sir Roy, I think the improvement in the balance of payments in the United Kingdom, the short one, the quick