bursed thanks to the receipt of A's funds, only then will imports and exports be unaffected by the financial corrective. In all probability, A will use some of his funds at home and F will have less to spend abroad, and the United States will have larger imports and smaller exports as a result.[8]

Restoring Balance: Partial Devaluation

Besides direct controls, various measures have been introduced to alter the ratios between selected domestic and foreign values. These measures are designed, by changing the basis of economic calculation, to divert purchases from foreign to domestic markets. They can most conveniently be regarded as disguised, partial devaluations of the dollar.

First, the dollar used for military expenditures abroad was devalued when the officials in charge were instructed to "buy American" whenever the cost was not more than 50 per cent above the cost in foreign currency calculated at the official exchange rate. Next came the concealed devaluation of the dollar used by recipients of foreign aid; they were forced to buy in the United States, even if they could have bought elsewhere at lower prices. As a result of the tied purchases the worth of the aid-dollar was reduced by about 25 per cent. The third partial devaluation was that of the dollar used for purchases of foreign securities: the so-called interest-equalization tax was equivalent to an increase in the price of foreign currencies by 15 per cent. The proposals made early in 1968 include a devaluation of the tourist's dollar by means of special taxes on travel expenditures outside the Western Hemisphere.

All such selective correctives through partial devaluation are inequitable, discriminatory, and inefficient, although they are superior to direct controls in that they work by means of price incentives and disincentives and leave the market essentially free.

[8] Feedbacks and other offsetting repercussions will also prevent the end of the war in Vietnam from ending the deficit in foreign payments. Military spending abroad may be replaced by foreign aid – as has been promised – or exports from the United States will decline. Military spending at home may be replaced by other domestic expenditures – many outlays in the war against poverty having been postponed – and if so imports will fail to decline.