

To many of us, such a policy should center on—rather than exclude—an agonizing reappraisal of our Vietnam policies, responsible for the \$30 billion skyrocketing of our military expenditures since 1964, but still likely to be regarded as a sacred cow by the next Administration. Let me add that sensible reductions in our overbloated military establishment would have a far greater impact upon our import requirements and export capacity than most other kinds of fiscal and budgeting retrenchments, and would therefore have a far greater impact upon our balance of payments, and a lesser one on domestic activity and employment.

D. If our balance-of-payments deficit remains excessive, even after such action has been taken, it may then, but only then, be necessary to give serious consideration to the advisability of exchange rate readjustments. I would hope, however, that such readjustments might, more sensibly, take place through an appreciation of some of the stronger currencies of major surplus countries, the Deutsche mark for instance, rather than through a dollar devaluation which would inevitably trigger a chain reaction of other devaluations by most countries of the world.

7. Policy conclusions for all countries

The specter of a dollar devaluation calls to mind another basic need for an agonizing reappraisal of the way national policies are decided and made mutually defeating and ineffective in an interdependent world. No country can change successfully its exchange rate vis-à-vis another country if the latter decides to resist such a change. International policy measures must be decided internationally if we wish to avoid incompatible national decisions, reconcilable only through chance or chaos as in 1930's.

National governments must learn to forge together, by mutual agreement, compatible policy targets and instruments. We are now very far indeed from implementing such commonplace, but common sense, advice. I observed, several years ago, that the official targets of balance-of-payments policy proudly proclaimed to the world in 1960 by the U.S. and the U.K. aimed at an improvement of more than \$5 billion in their combined balance of payments, but that no countries had volunteered as candidates for the implied deterioration of \$5 billion in their balances of payments. I hardly need add that neither the U.S. nor the U.K. has fulfilled so far their 1960 policy objectives. They are, however, blandly repeating this year the same kind of unworldly arithmetic. We have announced our determination to improve our balance of payments by at least \$3 billion, and the British are forecasting an improvement of some \$2 billion in their own balance of payments, i.e. \$5 billion in all. Again, no candidates have appeared for the implied deterioration of \$5 billion in other countries' balances of payments.

Such policy targets should not be decided unilaterally, and indeed futilely. The amounts by which imbalance should be reduced, and the measures which should be adopted and accepted by all concerned to achieve the objectives and finance the remaining targeted imbalances should be explored and agreed jointly by deficit and surplus countries. This—slow and difficult as it may be to implement in practice—should enhance both the effectiveness of the adjustment policies considered necessary and the willingness of the surplus countries to finance the surpluses which they themselves want to retain as an alternative to exceedingly brutal readjustment policies by the deficit countries.

This imperative of policy compatibility brings me to my last topic: the problem of international monetary reform.

8. The supply of world reserves

The incompatibility of present policy targets may be quantified as follows. First of all, the combined \$4.7 billion net reserve losses of the U.S. and the U.K. in 1967 are matched by only \$2.2 billion of net reserve increases in the rest of the world, leaving a gap of \$2.5 billion between the total elimination of U.S. and U.K. deficits and of other countries' surpluses. This gap is due in part to unavoidable estimating errors, but in part also to perfectly avoidable and deliberately misleading accounting of reserve statistics by some of the countries concerned. As much as \$1.6 billion, however, was accounted for by the unprecedented drain of gold from official reserves into private hoards and speculation.

Secondly, however, international world reserves should probably grow at an average rate of, approximately, 4 percent a year, or even more, in order to sustain feasible, non-inflationary, rates of growth in world trade, production and domestic money stocks. The implementation of such a growth target would entail an annual increase of about \$3 billion of the world reserve pool. Last year's shortfall is thus of the order of \$4.5 billion to \$5.5 billion.