Let me explain what adjustment means. It is an economic term, and it needs explanation. Otherwise we do not understand one another.

Adjustment means that the deficit countries reduce their income and price levels relative to the surplus countries. This can be done in three ways: One, by deflation in the deficit country, which I believe no man in his senses will propose.

Secondly, by inflation in the surplus countries, which these countries do not want to do—and I doubt that they will do us this favor.

Thirdly, by an adjustment of the exchange rates, the rates by which price and income levels, expressed in different currencies, are being compared.

There are no other ways of adjustment. Everything else is tinkering, or expressed more politely, attempts to correct the balance of payments. All sorts of measures are used as correctives. We must distinguish, before all, measures that work only temporarily, and measures that work in the long run. None of the measures that we have taken or are proposing can work in the long run. They are all temporary measures. It is as if a pipe were leaking and we take our thumb and hold it over the leak. As soon as we remove the thumb, the leaking goes on.

This is not to be confused with adjustment. Perhaps we can clarify this by another example. If you see that you are bleeding from your finger and you put a bandaid over it, you stop the bleeding and there is hope that the skin will heal. And, if you remove the bandaid after awhile, maybe you won't bleed any more. But, what we have been doing to the balance of payments is not of that self-healing type. It is only of the thumb-holding type. This is why I say that no attempt at adjustment has been made or proposed.

Let me read a quotation from someone who understands a good deal of these things, about the problem of restrictions on capital movements. I read it first and shall name the source afterwards.

> Imposition of capital controls by the United States would not be a satisfactory solution. It would be contrary to all that we have been striving for in freeing trade and payments between countries. It would not be in keeping with our special responsibilities as custodian of a reserve currency, and it would be contrary to our long-run interest in ensuring that funds move to where they will be used most productively.

This statement is by Secretary Dillon, and it was made in 1962. He was right then and he still is right. I shall explain presently why restrictions on capital movement are probably ineffectual and, to the extent to which they are effectual, why they are not of the type that will bring about an adjustment. They amount to holding the thumb over a leak.

But there is also the idea of restrictions on foreign travel. On this I have more to say, though it may be a bit emotional. I have been brought up in Central Europe, and I know this type of restriction. I would never have believed that this country could sink so low as to restrict foreign travel. Whether a tax on travel expenditures will be effective or not, I cannot tell. It can be easily evaded. It will probably lead to reduced tax morality, and this can then spread to the income tax. This country has much higher tax morality than practically any other country, perhaps, with the exception of Britain. But tax morality can be undermined, and if you introduce a tax that is considered un-