

ethical, or immoral, then the people's tax morality may be permanently lowered.

Moreover, if you do restrict foreign travel and the restriction is successful, it will be successful only while the restriction is in effect. As soon as you take it off, you are back where you were. This is not a method of curing a balance-of-payments deficit. This is not an adjustment measure.

You will ask me why restrictions on capital movements may be ineffective. They may be ineffective for several reasons. First, there is always the question of substitution, substituting one kind of capital movement for another. Every economist ought to know it, and I said it when we introduced the interest equalization tax, the tax on buying foreign securities. It was quite clear that capital outflow would simply take another form, and so it did. Thereafter we introduced the voluntary program restraining bank lending. Then we introduced the voluntary program restraining direct investment. There are always ways of substitution. Thus, if you really are successful in restricting the outflow of American capital, you cannot restrict the outflow of foreign capital from the United States, and this is exactly what will happen.

This is an easy way of substitution. If, for example, our own firms borrow in Europe, the rates of interest there will increase, and Europeans take back their capital from the United States. It can be done in various ways. Assume that an American firm issues securities in Europe. These securities will have to be offered at somewhat favorable prices. Otherwise you cannot sell them. Foreigners will subscribe to these issues, but sell at the same time some of their holdings of American securities in the New York stock market, and bring back the proceeds from their sales. In other words, American funds, not European funds, will have financed our sale of securities in Europe.

There are always many possibilities of substitution. But even if there is no substitution, there is always the possibility of repercussions on other items of the balance of payments. If total spending in Europe is reduced—and after all, a firm that does not receive capital will spend less—Europeans will buy less and import less. If total spending in America is increased—and, after all, a firm that does not invest in Europe will probably invest a little bit more in the United States—we shall find that this increases our imports and reduces our exports. As a result a part of the whole effectiveness will be whittled away by offsetting changes in the balance on current account. We shall find our exports reduced and our imports increased.

I do not say that this will be 100 percent of the amount saved directly by the restraint, but it may be a large part of it. With both substitution and repercussion at work, it is quite possible that you will find the results quite disappointing, apart from the fact that the whole thing is only temporary, and as soon as you lift the restrictions, you will be back where you were. In other words, this is not a program of adjustment. This is only tinkering and, unfortunately, tinkering with little hope of success.

I would like to comment on one type of corrective that has become quite customary in the United States; namely, disguised partial devaluations of the dollar. We have used this technique three or four times in the last few years. We started in 1960, when we devalued, in