

effect, though not formally, the military-expenditures dollar. The Department of Defense told the military that they must buy American whenever the cost of buying here, calculated at the fixed exchange rate, is not more than 25 percent, later raised to 50 percent, higher than what they would have to pay in Europe. The effect of this is that the Armed Forces must calculate as if the exchange rate were really 25 or 50 percent different from what it actually was; that is, a disguised devaluation.

The next disguised partial devaluation was that of the foreign-aid dollar. It was done by our forcing the aid recipients to buy in America, even if the prices here were higher than elsewhere; they had to do that even if they lost up to 30 percent. So we have devalued the foreign-aid dollar.

Then we had the partial devaluation of the dollar that was used for buying foreign securities, the 15 percent tax. And now you consider introducing the partial devaluation of the tourists' dollar. I hope you won't introduce it, but will reject this plan. And there are proposals that we should have still other partial devaluations through surcharges on certain import duties, and through similar arrangements.

All this is very inefficient and partly ineffectual. It is discriminatory. It distorts the allocation of resources. It is a poor way of doing things.

If it were possible to make these devaluations general, even if it were in the form of taxes, you might say that is all right. If all imports were taxed by the same percentage, and if all exports got a subsidy by the same percentage, the same for all foreign transactions, then you would have something. But this is technically not practicable, and the only practical way of doing it is to change the exchange rates between the dollar and the currencies of the surplus countries.

Let me come to the problem of confidence. This problem seems now almost insoluble. I shall quickly mention five approaches that have been proposed or may be proposed.

The first approach is to make the dollar so scarce that people no longer want to switch from dollars into gold. This is out of the question, because the expected scarcity of gold is so much that, in order to make the dollar equally scarce we would have to adopt a deflationary program that would be a catastrophe for the United States as well as for foreign countries.

The second possibility is to raise the price of gold by 100 percent or something like that. I think it would be most dishonest if we did this, and it would also be most injurious for the whole world, because the inflationary consequences would be serious. Even if the profits made by central banks and other monetary authorities could be sterilized, you cannot sterilize the profits made by the speculators. They would sell their gold at the increased prices to the monetary authorities. There would be an avalanche of new money all over the world, with prices and incomes rising everywhere. I must warn against this approach, and I hope that our Congress will never think of doing anything of the sort.

Approach No. 3 is the so-called harmonization of reserves. This means to negotiate with monetary authorities that they agree not to convert the dollars they hold. The dollars would be locked-in by the monetary authorities agreeing to hold dollars in certain proportions or in certain minimum amounts. However, this could not work unless