ineffective in pulling back funds and would hurt their chance to build their reserves through the high bank rate. This does not seem to have happened so far. The other thing they were afraid of was that the impact of our program would be deflationary for France and West Germany, and that the effect of this would be to hurt the British ability to build their exports up by sending goods to France and Germany. Their reasoning there was that the restriction on tourism would hurt the French, the restriction on direct investments would hurt them, and the same thing would be true in West Germany. And they reason also that these countries would be less willing to pursue expansionary policies, because they would be afraid that they would pull in too many imports from Britain and so forth.

Now, actually France and Western Germany have gone along and pursued relatively expansionary policies.

But this whole thing has all sorts of ramifications.

Our program, our January 1 program, could be the sort of thing that would really make it tough for the British to make their devaluation work.

Representative BROCK. I am more concerned that that program will require on their part—not encourage, but require, at least sub rosa retaliatory measures which will wash out any effect on our balance of payments. And, certainly—I heard it over there—we are going to have to take some action to protect ourselves, because the pound is in a critical condition already. We may have to devalue—without anything else.

Mr. HART. May I intervene a moment. When you say we were taking the first and second steps—the difficulty about this New Year's Day program, it seems to me, is that on its face it is unenforceable; and when you start calculating what measures it would take to transform it into an enforceable program, you do find you are moving a good way toward exchange control. When you talk about the possibility of retaliation, it is not so much retaliation against the program as it stands. But, if we decide to put concrete meaning into the program, we will have to do things which may be very painful abroad, and may set off a process of retaliatory moves.

Representative BROCK. As Mr. Moorhead said, controls beget controls. I think that is an excellent summary of the situation.

My time has expired. Thank you very much.

Mr. OLSEN. While investors seek high return, there are two considerations which go into investment. One is the rate of return and one is the risk. And when the risk becomes greater than the return, the investment is liquidated.

Chairman PROXMIRE. Congressman Moorhead?

Representative MOORHEAD. Thank you, Mr. Chairman.

Gentlemen, in addition to the tax increase, what should we do to improve our balance-of-payments position—or is your testimony that the tax increase, in your judgment, of itself would do the job for us?

Mr. HART. Could I make a distinction, sir, between the balance-of-payments situation and the monetary reserve situation.

The monetary reserve situation has some of the dimensions of a banking position exposed to the possibility of a run. Here we are thinking in terms of possible transfers of capital funds above all.

It is true that a few years ago the U.S. situation as international