for the open economy. It will then become as meaningful to speak of international public finance as it has been of domestic public finance.

As the first step to this end, the U.S. Government's presentation of its budget, both ex ante and ex post, should include the quantification of the balance-of-payments impact of the budget. The statement of this quantification should be as detailed as security provisions possibly allow. Thus, there should be a spelling out of the foreign-exchange costs and benefits of domestic U.S. Government expenditures and receipts, of the foreign-aid program and of the overseas military program. The breakdown should be both by region of the world and by country, unless compelling reasons to the contrary exist.

In using the Government sector as an equilibrator in the balance of payments, care must be taken to harmonize such use with the underlying rationale of international trade: pursuit of comparative advantage in the aim of the optimal worldwide allocation of resources. Accordingly, measures that reduce the balance-of-payments deficit but that also conflict with the optimal allocation of resources are not truly corrective measures, because they undermine the rationale for the conduct of international trade in the first place. Thus, to save foreign exchange by misallocating resources is to engage in waste. Hence, once the Government sector has been utilized to the full extent of its equilibrating capacity in the balance of payments, and a chronic deficit still remains, then consideration of a floating exchange rate system or of devaluation under the stable-exchange rate system is in order.

B. *Defense.*—There is direct relevance to U.S. defense expenditures abroad in the foregoing proposition that to save foreign exchange by misallocating resources is to engage in waste. One method of reducing the balance-of-payments impact of U.S. defense expenditures is to shift U.S. defense procurement from foreign sources to sources in the United States. This approach was first ordered by a Presidential directive in November 1960. The growing extent of the use of this approach has been set forth by the U.S. Treasury Department in the following statement:

> Beginning in January 1961, Department of Defense purchases * * * normally were "returned" to the U.S. when costs of U.S. supplies and services (including transportation and handling) for use outside the U.S. did not exceed the cost of foreign supplies and services by more than 25%. In mid-1962 the standard 25% differential was increased to 50%, and on a case-by-case basis could exceed 50%. These policies, which are continually re-emphasized, remain in effect today. Hence, in cases where the U.S. versus foreign procurement source is to be determined on price differential grounds, a 50% premium in favor of U.S. end products or services is acceptable automatically and cases over $10,000 where the price differential is over 50% continue to be forwarded to the Deputy Secretary or the Secretary of Defense for procurement source determination. From CY 1961 through FY 1967, about $340 million in procurements had been diverted from foreign products to U.S. products or services under this program, at an additional budgetary cost of about $75 million, or about 22%.
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> Similarly, for Department of Defense procurements of goods and services for use in the U.S., case-by-case review procedures using the 50% differential as a "bench mark" were initiated in July 1962. The 50% differential was subsequently formalized as a part of the Department of Defense procurement regulations with