

## FOREIGN TRADE AND DOMESTIC EMPLOYMENT

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Aside from the maintenance of world peace, the subject under discussion tonight is the most important one to which the citizens of this country can turn their attention. As a matter of fact, it is not a separate question from that of world peace, but has important connections with it; so that proper action on our part on these internal questions will have a large and favorable effect on our relationships with the rest of the world, and of other countries with each other.

*Come here tonight*  
I do not ~~speak~~ as an expert. In various capacities I find myself surrounded by experts and am the grateful recipient of their instruction and advice. Without them, I could not come to conclusions satisfactory to myself. This is in spite of the fact that all of them do not agree with each other all of the time. My conclusions must be drawn as a simple American citizen on the basis of the best information and advice which I can get. It is on this basis that our representatives in the Congress have to come to their conclusions. It is on this basis that the whole citizenship of the country can most wisely determine its attitudes and thus influence the legislators whom it has chosen.

Not as an expert, then, but as one who listens to them and ponders on their outgivings, I approach the subject which is before us this evening.

It is desirable to clear away some of the dead wood which encumbers this subject and prevents us from reaching the heart of it. One of the mistaken ideas, in my belief, is that it is impossible to reach

a high peacetime level of employment in this country without a largely expanded foreign trade. A recent document of the United States Chamber of Commerce puts it thus: "It appears impossible to consume at home all the production necessary to provide and sustain the desired employment." This is not so. We can consume in this country very much more than we have ever produced and enough to keep our nation on a high level of employment and production. We must not allow circumstances which prevent an expansion of exports to serve as an alibi for inability to maintain prosperous employment, production, and consumption at home.

Another over-stressed argument for freer and greatly expanded foreign trade is that it leads toward a more peaceful world. There is a large measure of truth in this assertion, but it is not the whole story. We must not forget that up until the First World War, we had world trade on what was, in comparison with our own times, a free trade basis. In spite of that, the most terrible conflict in the history of the world broke out and has continued to this day with only a few years of uneasy truce in the interim between the First and Second World Wars. There are, in short, dangerous international rivalries possible in active competition between nations in free markets. It can only be said that those dangers are measurably less than is the case where powerful nations seek to set aside certain areas of the earth as their own commercial preserves in which other nations are treated as trespassers, with penalties exacted for their trespasses.

Reverting to the relation between the volume of export trade and the amount of domestic employment, it is easy to see the line of thought which has led to placing too much importance on the relationship between them. We look, for instance, at a great industry like that engaged in

making automobiles, in which a considerable part of the product is shipped abroad. We at once assume that, if that export market were non-existent, a corresponding number of men would be out of employment. It is easier to make this assumption than to raise the question in our own minds as to what it is that prevents some millions of families in this country who have no automobiles and would like them, from being able to purchase them. Further expansion of the export market for automobiles is evidently not a direct answer to this domestic problem, although, under proper conditions, it would assist in answering it.

Another situation which leads to hasty assumptions is that to be bound in industries or occupations which have in the past enjoyed a large export market and which, for some reason, have been cut off from it without corresponding increased access to domestic markets. A case in point is the plight of the cotton farmer. By measures which seem to me to have been most unwise, his distress during the depression was relieved by price maintenance devices which made him unable to sell abroad in competition with new cotton-growing regions. These regions were thus given a strong stimulus to expand their operations and output, and they were quick to seize it. It would now seem difficult for the American cotton farmer, on a world-wide competitive basis, to regain any large part of the former export market, unless by radical mechanization. It thus appears that a new large body of unemployment or under-employment has developed from a lack of foreign trade in this particular commodity. Actually, the decrease of cotton exports will tend, if we are wise in our policies, to be compensated by an increase in other exports more urgently needed by other nations,

thus maintaining employment as a whole, but not necessarily in the southeast.

It is true that these depression policies may merely have hastened a process which, in the long run, was inevitable. But that only points up more clearly the fact that, in the absence of domestic readjustment, too complete and simple a faith in the values of foreign trade in supporting domestic employment would have led in the long run to ~~disaster~~, as it actually did in the short run. As a result of such policies, and as an inevitable result of the disturbance in world trade by the war, we find ourselves in a mass of unbalances in our economy, and these unbalances lead to unemployment. The real question we have to decide is simply this: shall we balance our economy and make the necessary internal readjustments about the largest practical measure of internal trade, or shall we include in our plans a large measure of foreign trade? Our economy can be balanced and high employment and production assured if we take either course. Which shall we take?

It is fortunate that we can take either course. Not all countries can do so. One of the reasons which makes it possible for us to develop on our internal resources is the fact that we can feed ourselves and clothe ourselves from the products of our own soil. Great Britain cannot do this. To support anything like her present population within her own island realm, she must import vast quantities of food and fiber. She must pay for these in exports. She must have a large world trade to support her population. Should this world trade disappear, her population must be reduced by malnutrition, birth-control, or emigration. That is how serious foreign trade is with Great Britain.

Let us first consider, in our case, operation under the smallest convenient volume of foreign trade. Perhaps "convenient" is not the word. We want to use some word that expresses the intention of being practical and not foolish. We could, for instance, get along without tea, coffee, and bananas. No one would want to do that. We could conceivably raise tea, coffee, and bananas under glass. That would be so expensive as to divert manpower and resources from activities which would produce far greater returns in desirable consumption. It would be foolish in view of the fact that we can obtain these things at reasonable expense from abroad.

Let us base this proposed national economy on desired imports. These would include particularly the tropical and subtropical products just mentioned, together with metals which we do not produce or of which we have a short supply, such as antimony, tin, and manganese. There would doubtless be a demand also for silk. There are a good many other things, particularly raw materials, about which there would be general agreement as to the desirability of importing them.

As is well-known, it is fundamental to a sound foreign trade that we pay for imported goods and services with exported goods and services. While this balance of trade is much more complicated than this simple statement indicates, that nevertheless is a fundamental. What shall we export to pay for these desired imports?

We would normally export those things which we can produce better or more cheaply than can be done in other nations, since these are the products we have to offer in trade which have the highest values in our customers' eyes and for which, therefore, we can expect to receive the most in return. As examples of this type of export in which we have an advantage, we can mention certain types of industrial equipment,

and also durable consumer goods. Among durable consumer goods, the most important single item is automobiles.

Our advantage with durable consumer goods comes from a highly developed technology of production based upon our enormous home market or well-paid consumers. I am using the phrase "well-paid consumers" not to mean that they are paid as much as they ought to be, but simply that, in comparison with the whole of the rest of the world, they are well paid on almost any basis of comparison.

This enormous home market enables us to make durable consumer goods on large-scale production which, in turn, enables us to introduce economies in manufacture impossible elsewhere. Durable consumer goods are particularly susceptible to the development of such economies in manufacture; and as a result, we are able in the durable consumer goods field to pay higher wages than anywhere else in the world and, at the same time, to offer better goods at lower prices.

Our superiority in many kinds of production equipment is a corollary to this same situation. High production methods are both dependent upon and stimulate development of high production machinery and equipment. Their value is recognized the world over. Here, then, we have imports desired by us and exports desired by others which complement each other as a basis for a balanced economy on a minimum desirable basis of foreign trade.

Two things, of course, are understood in this assumed type of economy. One is that it is not necessary to exchange goods and services bilaterally with other nations. It may be done trilaterally or multilaterally, in which cases it presumes as healthy an exchange situation between other nations as between ourselves and them. This is one of the ways in which we find ourselves concerned with foreign trade in general as distinguished from that in which we are immediately

exporters and importers. The foreign trade of the whole world is our concern, even with a minimum dependence upon it on our part.

A second point which must be observed is that our internal economy is affected by the extent and nature of the external trade which we choose to depend upon. Importing a limited amount and variety of products means that we must obtain the more internally. We might conceivably decide to raise all of our wool, leather, and sugar. Some of our agricultural production would shrink with reduced exports; other products would be enormously expanded by a complete dependence upon them. A new internal balance would have to be struck. We might decide also to rely entirely on synthetic rubber and to continue our domestic production of vegetable oils. These represent decisions in the extreme range of practicality in the field of minimum foreign trade. Whatever conclusions we come to will require some shift in our own production to balance ourselves internally.

Let us next consider a maximum of world trade, doing away with import duties entirely. This would require a still greater readjustment of our internal economy. Large sections of our agricultural production would be diminished. This would include at an early date wool, sugar beets and cane, and a part, at least, of our present shrunken cotton production, except as we made up for our higher cost of production by complete mechanization. Much of our textiles industry would go. Possibly boots and shoes would be largely made abroad if successors to the Bata factory should spring up.

There has been some suggestion that we have a duty to the rest of the world to share our prosperity with them, by making large reductions or eliminations in tariffs and widely opening our markets to them, even though our own home employment and production may be injured

thereby. This is sometimes argued from the longer-range point of view that ultimately and after a period of hardship, this will work to our advantage.

This approach to the problem of international trade assumes that in an international economy, one party gains and the other loses, instead of both parties gaining. It is the international parallel to domestic policies which assume that social gains are to be made primarily by redistributing wealth, taking from A to give to B, rather than by encouraging or permitting A's wealth to produce more for the enjoyment not only of A, but of B, C, D, and E, clear down through the alphabet. Proper foreign trade policies can lead to a vast increase in world wealth production, to the benefit of all concerned, just the same as proper internal policies can best be based on the production of additional wealth to distribute rather than on the redistribution of existing output. It is a false premise that we must suffer or even share, if we are to assist in raising the standard of living the world over. We can reap advantage in the process as well as in the result.

Of course, few propose to go to the extremes of a self-contained economy on the one hand or of absolutely free trade on the other. The extremes are obviously absurd. What we should do is to find the golden mean. It will lie somewhere in an expansion of our foreign commerce well above the limitations just described as being the minimum that are practicable.

Looking again at the extreme of a completely isolated nation which, if it wants bananas, coffee and tea, grows them with artificial heat under glass, we do get a picture of the substantial benefits to be derived from an expanded foreign trade. While foreign trade will not necessarily increase the volume of employment, as has already been

employment. That is to say, it will improve the quality and quantity of the goods and services available to the worker in exchange for his work.

Instead of digging coal, building greenhouses, and putting infinite toil and capital expenditure into the endeavor to provide ourselves with bananas, tea and coffee, we have only to make the things which we can make to the best advantage, sell them in world trade, and take out of world trade bananas, coffee and tea from the countries which are best adapted to produce them. By working at our best and taking products of countries which produce at their best, the hours of work and the dollars of investment we put into our economy are greatly multiplied in the volume, value and distribution of the consumer goods and services we ultimately receive.

We must, therefore, find ways of expanding our foreign trade to give us this maximum of advantage for each hour of our work and each dollar of our capital expenditure, with the minimum practicable upset in our pattern of agricultural and industrial production in this country.

In the foregoing discussion, when we have been considering the effect of foreign trade on the volume of employment, we naturally talk about exports. On the other hand, when we discuss the effect of foreign trade on the value of employment - that is to say, on increasing the amount or value of goods and services consumed by the worker - then we direct our attention to imports.

The value of the employment to be gained, rather than the volume of the employment, is the largest and most desirable result we can hope to get from foreign trade. Direction of attention toward imports rather than exports is correspondingly important. It is also important in that it throws the spotlight on the weakness in all our foreign

trade thinking up until this time. Business, labor, and legislators may have given lip-service to a balanced foreign trade, but in the actual development and support of tariffs and foreign trade policies, they have worked with might and main to see to it that this country exports more than it imports. The so-called "favorable balance of trade" was the end and aim of American policy. I am sure we as a nation are better informed than we used to be, and it should be evident that if we continuously send out more than we receive, we are thereby impoverishing ourselves and no lasting good can come of it. Without losing sight of the importance of exports, this recognition that the most favorable effect to be gotten from foreign trade lies in the value rather than the amount of employment will, in the long run, help us to focus our attention on the more difficult but more important question of imports.

We are to be called on in the post-war period for very large capital loans abroad, both for reconstruction and for industrial development in other parts of the world. These loans in their tangible form will appear, in a large measure, as exports of capital goods. For these, we cannot expect immediate balancing imports. But the import question still remains important, since ultimately the interest and amortization payments will have to be received in that form.

There are many reasons why the present is the most propitious time to make a change in our foreign trade policy. We can come to a new internal balance to meet a new external trade much more easily from the fact that we have to make great changes in any case in shifting from war to peace production. This is a far more favorable time for re-aligning our foreign trade than would be the case if the endeavor were made during a time when the country was running on a

In another respect the time is propitious. Needed tariff reductions can more easily be made from the political standpoint in periods of prosperity than in periods of depression. If the level of employment is high, the workman has less fear that foreign imports will decrease his employment, and the manufacturer has less fear that they will unfavorably affect his market. Furthermore, what adjustments have to be made on the new basis are then more easily made than at any other time.

Proposals of this scope and to this end should be the over-all considerations in determining detailed tariff policy. It is with these over-all considerations that I am concerned here this evening. It is my belief that a determination of policy with regard to them is the first requisite for getting down to detailed proposals.

We would be over-optimistic to assume that the freer world trade will meet with no obstacles in being inaugurated at the earliest possible moment. A great obstacle is to be found in the necessitous situations in which the ravaged nations of Europe find themselves. As has been said, they are going to require a heavy volume of financing to bring themselves back into a productive capacity which can take its place in world trade. Some of this financing will come under the head of relief and can properly be made as a gift to the peoples of these nations. Other financing will be for re-equipment of trade and industry and for replenishing exhausted working capital. Such advances, being for production purposes, should be made as amortizing loans on easy terms.

In addition to these distress loans, there will be opportunities for others more nearly of the peacetime type made for profitable investment. The volume of these and the mechanism for mobilizing the necessary financial resources requires special

large-scale provisions which did not exist and were not so urgently needed in the pre-war world.

We are particularly interested, in this country, in productive capital requirements, since one of the fields in which we have the greatest comparative advantage, as was explained earlier, is that of productive equipment. We will want to broaden our markets for this to the fullest extent the world over and will want to assure ourselves we are paid for these capital goods which we export. The need being so much greater than the available funds, we must extend credit and take bonds or other paper in payment. But we must also be prepared to receive back the interest and amortization repayments in the form of gold (for which we will have little real use) or in the form of desired imports. Unless we permit these imports, labor and capital cannot, in the long run, receive payment for the goods produced and exported.

There will be, temporarily, other restraints to the ideal pattern of world trade we are seeking to establish. Of these, the principal one is the necessity for import control which will be laid upon nations whose capital equipment or internal economy has been devastated by the war. Such a nation, for a considerable period, must see to it that its supply of foreign exchange is allowed to go only for imports which lead most directly toward the revival of production and profitable employment. It will be folly for such nations to allow complete freedom of international trade which, for instance, permits the importation of luxury goods or any other commodities not directly related to their most serious requirements.

As a somewhat parallel case, we have the situation of China

which, with limited available exports and the possibility of limited loans, must carefully control its imports to see that they are those which will best minister in the long run to the raising of the standard of living of the mass of the population of that country. Here again, they will wisely decide to restrict the importation of consumer goods which would be for the benefit of a minute fraction of her population; and instead, concentrate on wisely chosen capital goods which may have an effect, in a few years, which will be felt favorably, throughout the whole hundreds of millions of that populous country.

These deep-seated dislocations resulting from the war are going to make it necessary to set up special means for taking care of them. Such special means would best be devised to serve usefully as regular procedures for peacetime use after the immediate post-war problems have been served. Technicians of forty ~~nations~~<sup>four</sup> nations have sought for this solution and came to an agreement at Bretton Woods last July. This agreement of the technicians has been the subject of prolonged and careful study by the Committee for Economic Development, through its Research Committee, of which I have the honor to be Chairman. The report of that Committee is released for publication tomorrow morning. The following personal comments are in line with that report.

The International Bank set up under the Bretton Woods agreement takes care of the question of international capital loans. The solution offered has met with general approval in this country. Subscriptions to the capital of this Bank are to be made by all of the cooperating nations, and the revival and expansion of world production and trade becomes thus an international responsibility,

as it should be. Also as it should be, this country makes a major part of the financial investment and carries a major part of the responsibility.

The Bank as set up does not meet all the financial necessities for the revival of world trade. For real revival, there is required also provision for orderly adjustment of foreign exchange and the arrival, through orderly adjustment, at a practicable measure of stability. This cannot be left to chance and circumstance or the danger of competitive depreciation. With the trade of the world so largely carried on for the next few years under the abnormal circumstances which we have been describing, it will be difficult to hold the trade of each of the subscribing nations in a balance to permit a stable exchange. It will be still more difficult to determine at any given moment, such as at the end of the European war if that takes place at a given moment, just what the peacetime exchange rate should be.

To take care of this problem, a Stabilization Fund has been proposed. This problem, while related to the Bank, is of such a special sort and requires such special and independent treatment that the responsibility for it should be located where it has been placed; that is, in a separate Fund. For the first time, and by the necessities of the situation, foreign exchange would be studied and, so far as possible, controlled and compensated for by a responsible body working for the interests of all. This body to be fully effective, must work in the open, with its data and research results publicly known and its operations fully revealed.

Its normal function would be to bring the network of foreign exchanges to their normal balance at the earliest practicable moment,

and the framework of orderly change provided for in the agreement is suited to this process. As the exchanges approach a normal, the normal function of the Fund itself comes into normal operation. For longer or shorter periods, importing nations are deficient in the currencies of the countries from which they wish to buy. Exporting nations are faced with the inability of their customers to pay for exports. Exchange demands will therefore rise and fall about a carefully determined normal. The Fund is planned at times to furnish currencies to purchasing nations, and at other times, purchasing nations are to return those currencies to the Fund. These dislocations thus compensated for may be daily, weekly, or seasonal compensations. They may conceivably be safely and normally compensated for on a cyclical basis.

There is, however, one contingency which neither the Bank nor the Fund ~~has been set up~~ <sup>appears</sup> to take care of. The Bank provides for specific capital loans for specific purposes. The Fund provides for what are, in essence, temporary loans to meet temporary unbalances. During the period of arriving at a reasonably balanced exchange situation, loans of a character not provided for will become necessary. These loans are likely to be rather large and will be general stabilization loans rather than for specific capital purposes or to meet temporary unbalances in the exchange. To make such loans out of the Fund is to misuse the Fund and lay it open to the dangers of exhausting its supply of scarce currencies. To make such loans by the Bank appears to go beyond the provisions under which it would be chartered. This gap in the Bretton Woods agreement needs to be filled.

There is one unwise method of filling this gap. This would be

by making such general stabilization loans from the Fund. To do so

justifies the weightiest criticisms of this Fund, which have centered in the fear that the principal demands upon this pool of currencies will arise not from short-lived unbalances of trade, but from the very serious distortions in production and international trade relations caused by the war.

The Monetary Fund, it is held, will inevitably be put to the necessity of having to "finance unstable conditions" in many countries for an indeterminate period; its stronger currencies will quickly be drained away and replaced by weak currencies which few firms engaged in international commerce will need or want; that is, the managers of the Fund, in spite of some safeguards, will in fact be powerless to prevent the use of this pool of money for what would be in effect stabilization, reconstruction, and "general purpose" loans to war-stricken countries.

Consequently, it is held, the prime intended function of the Fund, to deal with currency transactions and to correct temporary currency imbalances, would be perverted; not necessarily through mismanagement, but because of the underlying economic necessities of the post-war period in many war-torn nations. This result, it is anticipated, may lead to early breakdown and future serious international monetary, economic, and political difficulties.

It should be accepted as a fundamental principle in this country's dealings in this field that, in so far as possible, loans should be truly loans, currency transactions should be currency transactions, and gifts should be gifts. Lack of clarity as between intent and method at this point will produce in the future, as it has in the past, misunderstanding, recrimination, and bitterness between countries. If a gift cannot be made as a gift, it should not mask behind the

facade of a loan. Likewise, if a loan cannot be made as a loan, it should not mask behind the facade of a currency transaction.

Since it is certain that many countries after the war will need stabilization, reconstruction, and general purpose loans, provision should be made for them. They should be thrown expressly within the province of the Bank's management, where normal credit-extending considerations could be expected to govern every transaction. The International Monetary Fund could then be constantly maintained to serve its special purpose, to deal with temporary imbalances of international trade. The Fund's managers could refer to the Bank any demands that would tend to transform it from its prime and true function into a long-term loaning agency.

This change in policy can be effected in either one of two ways. The really sound way would be to gain an extension of the Bank's powers to that end. Would it not be easy to gain acceptance of this extension from the present forty-four signatories of the Bretton Woods proposal without calling a second conference? It is not a radical change. In actuality, it can be considered as little more than a mere clarification of an obscure phrase.

In that obscure phrase lies the second method of putting the Monetary Fund on a more satisfactory working basis. The phrase in question is to be found under the very broad terms given in a crucial article which reads: "Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction and development."

This second alternative proposes to remedy the weakness in the operations of the Fund by an interpretation that the type of loan referred to can and may be construed as a "special circumstance."

By such interpretation and administration, the Bank takes on the functions which should be assigned to it, and the Fund is left only with those responsibilities which it can properly undertake.

It would appear from a recent and little-noted news release that the Treasury might be willing to accept the administrative solution. This is, however, definitely the less desirable of the two and should be adopted only if there are serious difficulties in the way of the more thorough-going solution. The better course would not seem to be impossible if skilful negotiations to that end were undertaken.

The wide discussion which the Bretton Woods agreement has had sets the pattern for action and interaction between the Government and the people whose servant it is. These post-war settlements are going to be difficult in any case. We will finally have to accept something less than perfect; but in spite of that fact, if we all leave our minds open to wise and constructive discussion, we shall find ourselves in the end solidly behind a Government which has negotiated the best possible solutions in the light of both the common and the particular interests of our own nation and the nations of the world.