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ADDRESS ON THE BRITISH LOAN

by

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AT A LUNCHEON
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The President of the United States has placed before the Congress a set of proposals designed to establish our future economic and financial relationships with the British Empire. Their most notable feature is a large dollar loan to help the British to help themselves in surmounting the difficulties which face them as a result of the war. These proposals are the result of long and painstaking negotiations with representatives of the British Government in which I had the honor to participate. I was invited to come here today to tell you why I believe they represent a fair and honorable bargain; why they serve the interests of the United States; in fact, why they are an essential step on the road to world peace and prosperity, and, therefore, why they should be adopted.

We do not need to look twice at the war-torn world around us to realize what a tremendous job it will be to restore that world to peaceful and prosperous ways. We do not have to think twice about recent history and the two World Wars which have fallen on us within a generation to realize how vitally important this objective is to every one of us. The world cannot be brought back to the paths of peace and economic welfare without strong, courageous leadership. Throughout the world this country is looked to for that leadership.

This country has a plan for economic peace. It is to the everlasting credit of this Government that in the midst of the most devastating of all wars it nonetheless found energies to devote toward planning for the peace. We have given the world leadership by developing, in co-operation with our Allies, a positive program for economic recovery and reconstruction. We have taken two major steps toward laying the groundwork for a prosperous world economy.

The first was the Bretton Woods financial proposals which were worked out at an international conference summoned more than a year ago at the initiative of the United States. The second is the proposals on international trade and related matters which have been put forward by the United States as the basis for discussion in international conferences during the coming year. These two sets of proposals, one in the financial and one in the trade sphere, complement each other. Both have a common objective: the development of "rules of the game" for international economic affairs. The Bretton Woods Monetary Fund aims at the abandonment of artificial exchange restrictions and creates machinery for dealing with international exchange rates. The United States' proposals on commercial policy seek to eliminate unfair trade practices and other barriers to international commerce.

What are the prospects for getting the kind of an economic world envisioned in these proposals? The outlook is indeed black unless we in the United States are prepared to do more than preach about world peace and prosperity. We must be willing to back up our preachments with practical, cooperative proposals such as the ones I have just mentioned.

We all know what a desperate state the world is in today. Great areas in Europe and the Far East have been left prostrate by the war. Masses of people in the world are hungry, not just for food (and for every other kind of goods), but also for employment and for social and economic peace. Bread, work, and peace! Enlightened leadership must provide these essentials of a decent life through reasonable and humane international arrangements, or desperate peoples will inevitably yield to the glib promises of ambitious revolutionists, losing their liberties in the hope of gaining economic security.

We need an orderly economic recovery in the world for the sake of political stability and social order. Poverty breeds international rivalries and conflicts. In times like these, distressed nations are tempted to make full use of every bargaining power and weapon that can be brought to hand. Unless a positive program for regulating international economic relations is widely accepted, trading relations can easily degenerate into a ruthless struggle for existence. An undeclared state of economic warfare might rapidly develop among the world's leading nations and economic blocs. In such an atmosphere there would be no hope for the United Nations Organization in bringing about a lasting peace.

In a very real sense, therefore, the Bretton Woods Agreements and the United States' proposals on commercial policy constitute treaties of economic peace. At the present time, however, many countries cannot afford to adhere to these treaties unless they receive some external assistance. In particular this is true of countries that suffered most from the destruction of the war and have little or no capacity to earn foreign exchange through exports until they have been rehabilitated. Such countries must be given an opportunity to work their way out peacefully and avoid social and economic chaos. The only satisfactory way out is through long-term credits, and our country stands almost alone in the world in being able to grant these credits and thereby supply essential goods.

Against these reasons for our extending aid to foreign countries we must weigh the pressures on our own domestic economy. We cannot ignore the fact that such aid through Government channels necessitates an increase in public expenditures. However, this increase is, by its terms, self-liquidating. The foreign borrowers will in effect assume the burden of this increase in our expenditures by making interest and amortization payments on their loans. We must recognize also that the expenditure of the proceeds of the loans in this country cannot be entirely welcomed at the present time. Many of these purchases will be made for products of which we will have an adequate, or even a surplus, supply, but inevitably other purchases will be for goods that are, for the time being at least, in short supply, and to that extent such purchases add to inflationary pressures.

So we must face up to the alternatives. We must weigh the advantages to the United States of a contribution to world stability against the costs which such a contribution imposes on us at home. No American doubts that we ought to make some contribution in money and in goods to the relief and reconstruction of the shattered world. At one end of the scale we have UNRRA to which by common consent we are donating large amounts of money and goods in order to provide emergency relief for destitute peoples. We all recognize the necessity for this, despite the drain which the UNRRA procurement program may exert on some of our domestic markets. At the other end of the scale, there are all kinds of grandiose projects which foreign countries would like to undertake with assistance from this country, but which are beyond our ability to provide and would not be in our interest to undertake. In between, however, lies a range of loan propositions of varying degrees of urgency and importance. These must be examined case by case with a view to making a determination based on our ability and our national interest. This was my approach to the British problem in the recent negotiations. Our proposed action in the specific British case must be judged in the light of its importance to the success of our whole foreign economic policy.

The British case is unique. More than any other country in the world Britain is dependent for her existence upon foreign trade. She is the world's largest importer and the pound sterling, after the dollar, is by far the most important currency in world trade. British trade and exchange practices, therefore, have an immense influence on all of the markets of the world. The construction of a liberal world trading system along the lines desired by the United States would be virtually impossible without British collaboration. To my mind, therefore, the basic justification for the loan is that it would make it possible for Britain to join with us in laying the foundation for economic peace through the Bretton Woods program.

Now, let's look a little closer at the British case to see why Britain needs the proposed sum of \$3,750,000,000 to carry her through the postwar period. She was getting along before the war. Living on her capital a little, perhaps, but a country with very great resources measured by peacetime standards. However, Britain has just emerged from six years of life-and-death struggle in which she has been forced to make tremendous human and material sacrifices. As a result, she faces enormously difficult problems.

The war has gravely crippled Britain's means of international trade on which her livelihood depends. The British Isles are a great workshop which must import large quantities of food and raw materials merely to exist. Before the war the British paid for these imports partly through exports, partly through the provision of shipping and other services to the world, and partly by drawing income from large foreign investments built up through centuries of effort by the British people. Today the import requirements persist despite the austere level of British living standards. But what has happened to Britain's capacity to pay?

In the first place, her export trade is almost gone and must largely be rebuilt. Why? Primarily because Britain has concentrated her energies so fully on the war. Production for war was given priority over production for export, except where exports served to bolster the war effort of Allied countries. We were partners in this conversion of the British workshop to war purposes. We made large supplies available to Britain on Lend-Lease. We, of course, did not insist on repayment in British goods at the expense of her war production. But when the flow of Lend-Lease supplies was abruptly terminated at the end of the war, this fruitful partnership was dissolved. The main burden of provisioning the British Isles had to be taken over by British exports, which were reduced in 1945 to only 30 per cent of the prewar level. This burden is manageable in time, but it may be three or four years before Britain can sufficiently restore her export trade to enable her again to be self-supporting.

Britain will also resume her place in time as a great provider of shipping, insurance, and banking services to the world. But these activities, too, have been shattered by the war. British shipping in particular suffered tremendous war losses.

The war brought about a radical change in Britain's international investment position. Once the largest creditor country in the world, she has been reduced to a net debtor through her prosecution of the war. In order to pay for imports and for her large military expenditures abroad, she has liquidated nearly 5 billion dollars worth of foreign assets since 1939 and has incurred foreign debts of more than 12 billion dollars.

Quite naturally, the British have argued that they deserve our assistance in digging out of their difficulties as much as in fighting the war itself. They were hopeful that we would help them through the post-war transition period on something like Lend-Lease terms -- that we would view the help as part of our share in the cost of the common victory over the enemy and in constructing the peace. We on the U. S. side have agreed to deal on this basis in settling for Lend-Lease supplies consumed in the prosecution of the war. But postwar assistance, we have felt, should be extended on a self-liquidating basis. We were impressed by Britain's sacrifice, but we felt that the provision of new money had to be based on future rather than past considerations and, therefore, could not be a gift but must be a loan, to be repaid over a period of years and bearing interest at a rate sufficient to cover approximately the cost of the money to the United States Treasury. The American attitude was summed up by Lord Keynes in the speech which he delivered in the House of Lords last December. "We soon discovered," he told his countrymen, "that it was not our past performance, or our present weakness, but our future prospects of recovery and our intention to face the world boldly that we had to demonstrate. Our American friends were interested not in our wounds though incurred in the common cause, but in our convalescence. To help that forward interests them much more than to comfort a war victim."

When this basic question of a loan was decided upon, and when agreement was reached on firm commitments by the British with regard to their trade and exchange policies, the final step was to determine how large a loan was necessary to do the job. How much foreign exchange would the British need to meet urgent expenditures during the period when they were getting back on their feet? How much would they need to pay foreign countries supplying the British market in sterling fully convertible into dollars and other currencies rather than in frozen funds? How much of this foreign exchange could they still draw from their own resources? How much of the load could be carried by other countries (Canada, for example), and what amount needed to be raised in the United States if the job was to be done? All these factors were closely examined. This figure of \$3,750,000,000 was not picked out of the air. It represents the careful judgment of our negotiators as to the minimum amount the British need from us to work their way out of the present situation, while at the same time they continue to subject themselves to an austere standard of living at home. The proposed loan amounts to what we spent in only two weeks of fighting a war of death and destruction. In contrast, it seems little enough to loan in the interest of peace.

Moreover, this loan is to meet Britain's minimum import needs and not to pay off her other creditors. As I mentioned before, as a result of her war purchases abroad, Britain owes some 12 billion dollars. About half of this is owed to India and countries of the Middle East where the British had to finance heavy military expenditures during the war. She plans to negotiate settlements on these debts involving cancellation of part and repayment of the rest over a long period of years. Our loan agreement with Britain provides that she must settle these debts out of resources other than our line of credit.

If we make the loan, what of its future? Can the British repay it? Can Britain and other foreign countries which share in our emergency postwar lending program live up to their obligations?

The answer is that they can repay if world trade is restored to a healthy basis and if we in this country take the lead in maintaining a high level of production and employment. They can't repay if the world breaks up in warring economic blocs or falls into another severe world depression. The essence of these loans is to create the conditions under which they can be repaid.

Loans, however, are not enough. The restoration of a healthy world trade also depends on whether we in this country learn how to administer our international economic affairs. There is an old, but often forgotten, axiom -- that we cannot forever export more than we import. This year -- perhaps for several years -- we face an emergency situation. During this period we must plan for large export surpluses in order to assist the world in recovering from the wreckage of war. But let's not lose sight of the reasons which justify this action. Above all, let's not

make the mistake of thinking that lending money to finance exports is the way to take care of unemployment when it develops. We shall deceive ourselves if we imagine that we can continuously sell abroad more than we buy. By accepting gold (of which we already have an abundance) or promises to pay, we can, of course, delude ourselves for a time into thinking that our foreign trade is on a solid and lasting basis. We get employment, yes, while the money is being spent, but the fruits of that employment are lost to us permanently if we persist in refusing to take goods and services from foreign countries to enable them to service and repay their debts. If we desire to maintain a thriving export business and receive service on our investments abroad, we must make the exchange of goods and services a two-way street. In the end, responsibility for making it possible for our debtors to pay is ours, and ours alone.

We should never forget that this country does not have unlimited natural resources. We have been exploiting our mines, our forests, our oil reserves, at a rapid rate. It is bad enough if we squander these resources in supporting ourselves at home. It is much worse if we dissipate them by pushing them out in exports and fail to provide for repayment. As we look for ways to restore our balance of international trade, we should devote special attention to the possibility of replenishing our reserves of scarce or irreplaceable raw materials by drawing upon the resources of the outside world.

There are some, as you know, who will let past grievances blind them to all reasons for granting this help to the British people -- who remember only the worst and forget what the finest British character has contributed through the centuries to the institutions of free men and the liberation of the human spirit -- who even now forget how this ancient, hardy people so recently stood alone through the long, dark night, the only barrier between this country and the onrush of the Axis powers over peoples less resolute. The good sense of the American people will not let these dissenting voices prevail, if for no other reason than that our Nation cannot afford, in its own long-run interest, to refuse the help.