

TREASURY DEPARTMENT  
Washington

The following address by William McChesney Martin, Jr., Assistant Secretary of the Treasury, at a luncheon of the Chicago World Trade Conference, at the Hotel Sherman, Chicago, Illinois, is scheduled for delivery at about 1:00 p.m., C.S.T., Monday, February 27, 1950, and is for release on delivery.

U. S. FOREIGN TRADE LOOKS AHEAD

Four years ago it was my privilege to address a meeting sponsored by this same group on the prospects for resumption of normal peacetime foreign trade. Today as we stand on the threshold of the last fifty years of the 20th Century, I have taken as my topic, "U. S. Foreign Trade Looks Ahead."

Four years ago we were all hopeful. The war had ended and we were proceeding rapidly to reconvert our industry from war to peacetime activities. The cardinal principles of U. S. foreign economic, financial, and commercial policy were then, and they remain today, the achievement as rapidly as possible of a multilateral trading system based on non-discrimination, freer trade, and general convertibility of currencies.

These objectives resulted from the general recognition that bilateralism, discriminatory tactics, quotas and preferences were all types of economic nationalism which laid the groundwork for the horrible conflict through which we had just passed. There was for the first time almost unanimous recognition of this at Bretton Woods. Our whole postwar economic thinking was focused around the conviction that high levels of employment and rising standards of living could be achieved on a permanent basis only through moving in this direction. When lend-lease was terminated, the UNRRA program, the expanded lending authority of the Export-Import Bank, subscriptions to the International Monetary Fund and the International Bank for Reconstruction and Development, the Anglo-American Financial Agreement, Interim Aid grants to France, Italy and Austria, and finally the European Recovery Program and other programs have totaled a commitment by the American people of over thirty billion dollars, as a direct earnest of their devotion to these basic principles.

All of these expenditures were a part of our hope for a "brave new world." As we look back, I think you will all agree we have been far from realizing this "brave new world." Our thinking was in terms of international cooperation and goodwill. We expected that the high ideals of the war period would be reflected in political agreements and policies and attitudes which would make possible the realization of the four freedoms.

I need not emphasize the extent to which our hopes of political cooperation have failed. Certainly the world of 1950 is far from attaining freedom from fear. In the atmosphere of the atomic bomb, there has naturally been a tendency to preserve many of the types of restrictions which are part of a war economy or a world economy dominated by the fear of future wars. The adoption of the principles of non-discrimination and convertibility of currency as a means of realizing freedom of international commerce involves risks. A certain amount of dislocation of production and employment is inevitable. If a country today imports what it formerly produced for itself or what it did without and if it exports goods which it formerly consumed at home or which it did not produce, there is necessarily a shifting of labor and of capital from one employment to another. The change is worthwhile, however, if we can believe that in the long-run we will be better off; that the dislocations incident to change are transitional; and that after a time a certain equilibrium will be reached at which the situation will be markedly improved. The adoption of policies, therefore, conducive to long-run benefit represents a hazard in faith in the future and to a considerable degree the world has not yet been willing to assume that risk.

If we look purely to the economic aspect of the situation, apart from problems of international politics, we can see that the problems of postwar reconstruction have been far greater than we had anticipated. Our economic forecasts were over-optimistic. We did not realize the extent to which the economies of the world had been impaired by the destruction of capital in the form of factories, transportation equipment, or the wearing out of industrial plant and even the exhaustion of soil resulting from the scarcity of fertilizers. We did not adequately appreciate the extent to which it would be difficult to restore trade within countries and trade between countries. The extent of the postwar inflations has upset many calculations and postponed the attainment of financial stability. It has not been easy to collect taxes in many of the war-torn countries. The level of public administration deteriorated, particularly in countries occupied by the enemy, where it was patriotic to sabotage the administrative process. The economic and political disorganization of Europe contributed a good part to what has been commonly referred to as the dollar problem, i.e., the inability of foreign countries to secure the amount of American goods they desired by paying for them from their current earnings of dollars, by the export of goods and services to this country or to other countries, which might have a surplus in their international accounts with the United States.

The people and the government of the United States have been aware of these problems and we have tried to make our contribution toward their solution. During the war we devoted enormous economic resources to the allied countries. By our assistance it was possible to sustain the economic life of the countries who were joined with us in battle. With the close of hostilities we made settlements of the obligations arising from this war which would not unduly burden trade in the future. In addition, our first postwar programs involved the extension of large credits to foreign countries. When it became clear that the mere extension of credits in the amounts which could ultimately be repaid was not adequate to deal with the problems, the

Congress of the United States voted billions of dollars of economic assistance without expectations of repayment, without expectation of any special economic advantages to the United States beyond those which would accrue from the reestablishment of a stable economic world in which there would be a rational pattern of international trade.

The details of the agreements implementing these programs varied from time to time, but their dominant note was that all we expected from foreign countries was that they would help to restore balance in world trade at a high level and to move as rapidly as possible toward non-discriminatory international trade and exchange policies. We also recognized that these objectives could not be realized at once.

*Prude*

It is practically impossible to have non-discriminatory trade and exchange regulations unless currencies are convertible. Full convertibility of currencies was scarcely possible at a time when many countries could not by their own efforts, earn the dollars they needed and when monetary reserves were exhausted. We recognized that the transitional period would take some years. The transitional period should be really transitional and the steps taken by the various nations in this intervening period would tend to bring about the desired end, rather than to be of such nature as to postpone its realization to the indefinite future.

It is obvious that there is no easy solution to these problems. We can not expect the countries of the world immediately to abolish their quantitative restrictions on trade, reduce their tariffs or to permit the free purchase of foreign currencies. If this action were to take place at one stroke of the pen the dislocation would be too great. We could not expect that as long as present conditions prevail that countries could successfully assume the burden of freely converting their currencies into gold or dollars. Yet it is clear that multilateral trade will continue to be severely hampered until we have a greater degree of currency convertibility. Obviously, the greater the restriction on the use of currencies to obtain foreign currencies, the farther we are away from non-discriminatory multilateral trade. Moreover, it does not matter whether this restriction is brought about through exchange regulations or through direct controls of trade. It is immaterial except as a matter of administration whether an importer can not obtain goods from abroad because of his inability to buy the requisite exchange or because he can not get the import license. Consequently, in developing trade and exchange policies for the future it is important to realize that an obligation of one sort can be circumvented by a restriction of another sort. To attain the ideal of multilateral trade we must move ahead on the trade front as well as the exchange front.

What we should expect for the immediate future is that the countries of the world will not adopt policies which will make the eventual resumption of convertibility more difficult and that to the extent that they are able they should move in the direction of producing the conditions which will make convertibility possible at the appropriate time. As long as the present imbalance in the international accounts of the world continues, full convertibility is scarcely possible. It is possible, however, for the countries

to move in the direction of convertibility by stages and it should be possible to devise ways of avoiding discriminatory features in these programs. There is always the danger that in a program of restricted convertibility that vested interests will grow up and production and trade will be directed in terms of the discriminatory arrangements set up. The essence of discrimination is, after all, that a higher price is paid for goods obtained from one country than would be necessary to obtain the same goods from another country. Put concretely, there is discrimination against dollar goods when a country pays more in terms of its own currency than it would have to pay for the goods if it used its currency for dollars at the official rates of exchange. The ultimate aim of non-discrimination and convertibility is the direction of a country's resources into those channels which yield the greatest returns and so make the largest contribution to the standard of living of a people. If this test of price comparability is used most of the dangers of discriminatory trade practices are eliminated even though it is possible to make payment only in inconvertible currencies.

Another step forward could be taken if countries would settle part of their international balances in gold or dollars. This would assure the regular application of the test of price comparability. If country A settles part of its balances with country B in gold or dollars, it will not be willing to pay a higher price for country B's goods than it would for American goods. Partial payments in gold or dollars could thus be a helpful device for reenforcing the principle of non-discrimination. The larger the portion of the balances settled in this way, or the more frequent the settlements, the closer is the approach to the ultimate ideal of convertibility. I throw this suggestion out as merely one way in which the countries of the world can move toward convertibility. At the same time there will be need of relaxation of direct trade controls since it is obvious that a periodic or partial settlement in gold or dollars could be negated by trade restrictions which might in fact enforce a greater degree of bilateralism than now prevails.

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A great part of the problem of imbalance in the postwar period has arisen from internal conditions. Where there is a continuing inflation there is always a greater incentive to import and a greater deterrent to export. Part of the so-called "dollar gap" represents merely the existence of inflation in some foreign countries. A second factor which may be significant is the level of exchange rates. Though the adjustments of last September were large, it is as yet too soon to say whether they have been fully successful. In those countries which are looking forward to an investment of American capital there is also a problem of establishing conditions which will attract American capital. We have had a program of treaties of friendship and commerce with other countries which include provisions for equitable treatment of foreign capital. But American economy is an economy of private enterprise. We expect that capital will move abroad in the form of private investments and, obviously, the private investors must have satisfactory conditions.

On the other hand, the United States must realize its position in the present-day world economy. Our imports and our exports form a very large

percentage of the world total. Much of the international investment in the next few years will have to come from this country. The countries of Europe which formerly supplied the bulk of foreign investments are not in position to make new investments abroad. In fact they have become capital importers. American business must look to expansion in foreign countries and American investors must look more favorably on foreign investment. I am sure that under appropriate conditions they will do so.

The United States has now become the largest creditor on long-term account. The United States has traditionally had an export surplus. It would be Utopian to believe that the flow of capital investment from private channels will be sufficient to cover the large export surpluses that we have had in recent years. These surpluses have been made possible by a policy of gifts and grants and governmental credits to foreign countries. These payments were made primarily in view of the necessities of foreign countries and what we have believed was the long-run interest of the world economy. The Government should not continue to subsidize exports indefinitely.

*for a time at least*

As United States extraordinary assistance decreases, we must frankly face the fact that we will have a larger volume of imports or a reduced volume of exports, or both. There will have to be adjustments in our own economy as well as in foreign countries. The patterns of U. S. foreign trade and the trading practices of the world will depend upon the way in which these adjustments are brought about. The world can drift in the direction of a lower volume of trade or we can try to move in the direction of a higher volume. Foreign countries may continue along the lines of discriminatory trading practices and inconvertible currencies, or they may, on the other hand, take the alternative of moving toward convertibility and non-discrimination. We can, if we wish, encourage a larger volume of imports, and in the long-run, in my judgment, this will be beneficial to our whole economy and ultimately produce an increase in our exports also.

We can not avoid the problem. The solution will depend as much upon decisions by other countries as by ourselves. Their policies will affect our decisions quite as much as our policies will affect them. It is important that we decide consciously what our role should be rather than drift with the tide of events.

1. World trade revolution
2. Cold war tensions but even with change