

INTERNATIONAL TRADE
FOREIGN INVESTMENT
and
DOMESTIC EMPLOYMENT
including
Bretton Woods Proposals

A Statement on National Policy by the

THE RESEARCH COMMITTEE

of the

COMMITTEE FOR ECONOMIC DEVELOPMENT

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THE TRUSTEES of the Committee for Economic Development established the Research Committee "to initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce in the postwar period to the attainment of high and secure standards of living for people in all walks of life through maximum employment and high productivity in the domestic economy." (From CED By-Laws)

CED's Research Committee of businessmen assigns questions for study to qualified scholars, largely drawn from leading universities. Under the by-laws "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group." (From CED By-Laws)

The monographs prepared by the scholars, after consultation with the Research Committee, are published as books by McGraw-Hill Book Co. Inc. In most cases, the Research Committee itself then issues a "Policy Statement," such as the following, based largely upon the monograph.

Neither the Policy Statement which follows, nor any other statement by the CED Research Committee, claims either directly or by implication to represent the views of the Trustees, Regional, District or State Chairmen, or the 2800 local CED committees and their 60,000 members. Up to the date of publication, they have not participated in the background discussions between businessmen and economists leading to the formulation of the statements. The statements are offered to these committees and to all others interested, as an aid to clearer understanding of steps to be taken in reaching and maintaining high level of productive employment and a steadily rising standard of living.

Foreword

THE EXPANDED ROLE of the United States in world affairs, as a result of World War II places new emphasis on American foreign commerce, investment, and our participation generally in economic affairs beyond our own borders. These changing conditions are already being dramatized by The Bretton Woods meeting on postwar international finance, the Chicago meeting on world air commerce, the Inter-American Conference at Mexico City, and by the San Francisco Conference.

Foreign trade and international economic interdependence is also closely related to our own domestic economy. We cannot plan for nor expect to achieve a high level of productive postwar employment within the United States without paying close attention to the expanded influence of our international economic position.

In view of such facts the C. E. D. Research Committee, almost two years ago, scheduled a study of Foreign Trade and Investment as one of its major research projects. In the subsequent months, Dr. Calvin B. Hoover, dean of the Graduate School of Arts & Sciences, Duke University, proceeding with the complete freedom of conclusion and expression guaranteed all scholars undertaking C.E.D. research studies, has been investigating this broad field. His findings and recommendations will be published as a C.E.D. Research Report by the McGraw-Hill Book Company under the title of "International Trade and Domestic Employment."

During this period the C.E.D. Research Committee of businessmen has also been studying these same problems of postwar international commerce and finance, with particular reference to their relationship to achieving high level domestic employment after the war. In the course of its investigations, the Committee has greatly benefited from discussions with Dr. Hoover and with members of the Research Advisory Board. However, the conclusions and recommendations contained in this Policy Statement are entirely the Research Committee's.

Believing as it does that foreign trade will play a vital role in our postwar economy, the Committee publishes this Policy Statement in the hope that it will contribute to a wide discussion and examination of the factors involved.

RALPH FLANDERS

Chairman, Research Committee

I. AMERICA'S INTEREST IN POSTWAR EXPANSION OF WORLD TRADE

ONE GOAL of American policy should be the increase of peaceful trade among the peoples of the world. The peace and prosperity of all nations after the war would be advanced by the reestablishment and increasing development of world trade. The interchange of goods, international travel, and communications between peoples can make for better world understanding. If the barriers to trade increase after the war as they did before the war, each nation will have to look inward, primarily to its own resources, and the higher and richer ways of life made possible through world trade will be lost. The pressures to restrict are strong, and vigorous effort to expand world trade is necessary to overcome them.

The United States has a major interest in the expansion of world commerce. We are a powerful industrial nation. We need vast quantities of goods and services of many kinds. We have a large margin of efficient, productive capacity which can be put to work making things for international trade. We can exchange these things with the people of other countries who, themselves, make other things available for trade — other things better or cheaper or different than we can or want to make.

A restrictive course by America toward foreign trade is contrary to American interest. It will be followed by restriction abroad.

With these considerations in mind, we submit the following principles, prerequisites, and policies which we believe fundamental to a healthy and expanding world trade.

II. FIVE BASIC PRINCIPLES

1. All actions by any nation have consequences immediate or remote, important or unimportant, for the security and welfare of every other nation. Nevertheless, each nation should be free to develop its own way of life without interferences from other nations, so long as its action does not threaten the authority of another nation within its own domain or the ability of the people of another nation to work with the resources that are their own.

2. American policies should aim at the development of world trade in

such a way as to contribute most to the long-continued peace and prosperity of the United States.

3. At the same time, these policies should also contribute to the long-continued peace and prosperity of other nations.

4. Trade between nations should be developed so as to raise living standards through greater economy and efficiency in the use of human and natural resources. The desirability of expanding world trade does not come from material wants alone; we include, in the content of a higher standard of living, breadth and diversity of cultural experience which give greater richness to human experience.

5. The main functions of our international trade should be carried on, as far as the United States is concerned, through private competitive enterprise, and the international commercial policies of the United States should be directed toward the strengthening of this principle.

III. SIX PREREQUISITES

A healthy and expanding world trade depends for its fullest growth on six prerequisites:

1. *An effective development of world security.*

Such security requires both international organization for the preservation of peace and an attitude of mind among the peoples of the world favorable to the continuance of peace.

2. *The maintenance of high levels of productive employment in the United States, and in other nations.*

Maintenance of high levels of employment within nations is vital to the expansion of world trade. When employment is high, imports are on a large scale and travel expenditures are liberal. On the other hand, mass unemployment within a nation not only reduces its trade directly, but puts it under great pressure to increase its barriers to imports, to subsidize its exports, and to devalue its currency in an effort to export part of its unemployment to other nations. (It is commonly recognized by students of international trade that one country can obtain a *temporary* increase in employment at the expense

of employment in other countries by measures which interfere with trade.)

3. *Dependable currencies and relationships between currencies to facilitate trade among nations.*

If currencies and the relationships between currencies are not dependable, world trade will approach the character of barter. Barter as the basis for trade among nations restricts trade.

4. *A substantial reduction in restrictions to world trade.*

Restrictions to world trade prevent free flow of goods, services, and capital from where they are available to where they are needed. This obstruction prevents efficiency in the use of the world's human and material resources and is an obstacle to the attainment of a higher living standard. Trade is a two-way street. In the end, exports must be paid for by imports, if they are to be paid for at all.

We must recognize, nevertheless, that government-established barriers are instruments of national policy, and in special circumstances, at times, and for some countries, they may meet a national need. They should be looked at as tools which are more often used badly than well. Unfortunately their effect has been often misunderstood by their advocates, and what was intended as a protection for capital, labor, and natural resources has resulted in shrinking markets, the discouragement of ingenuity and invention, and a lower standard of living. We must recognize that restrictive agreements entered into by private business organizations also hamper international trade and that when they exist they are necessarily matters of public concern.

In some countries there will be an urgent need for some time after the war to protect the dependability of currencies and currency relationships by the maintenance of some exchange and import controls designed to ration scarce foreign exchange as an aid to national development. Such controls

should be on a non-discriminatory basis. Exchange controls should not be employed to divert trade from natural multi-lateral channels to members of exclusive currency areas, nor to build up bilateral trade in a manner restrictive of the necessary and desirable expansion of world trade as a whole.

5. A fifth prerequisite to a wholesome, expanding world trade is a reasonably adequate solution of two basic problems that will be urgently before us after the war.
 - a. *What basis can be found for commercial relationships between private enterprise and state-controlled monopolies (both as to their dealings with each other and with third parties) that will promote trade and commerce to the economic advantage of all concerned and in the spirit of fair dealing and good will?*
 - b. *What program can be adopted for the financial and economic rehabilitation of Western Europe, with particular reference to the position of Great Britain? How can a balance of imports and exports be achieved? What financial aid should be extended and in what form? How can temporary restrictive expedients, which may be necessary, be kept from creating stubborn vested interests that will obstruct progress to long-term trade freedom?*

The first problem (a above) arises because there is a difference in the immediate motives activating an individual private enterprise and a state-controlled monopoly. An individual private enterprise is conducted for profit within the limits set by competition. But a state-controlled monopoly may be conducted for the political purpose of the state as well as for economic gain; it can subordinate or temporarily forego economic benefit for political advantage. An individual private enterprise has no such alternative. Principles of fair dealing must be worked out if the highest interests of both private enterprise and state-controlled monopolies are to be achieved.

The second problem (b. above) arises because of the destruction of production assets during the war, and because of the distortions created in ownership of productive assets, in markets, in population, and in overhanging financial obligations as a consequence of the war. The liquidation and readjustment must be worked out through principles and methods that will provide a livable transition to an orderly and expanding world commerce. The whole of Western Europe is involved in this problem; but the situation confronting Great Britain is particularly important, Great Britain in the course of war has sacrificed a large part of her foreign investments; her trade and shipping have been disrupted and partly destroyed; her industry will have to be largely rebuilt; her housing problem is formidable; and she owes enormous sums on short-term account abroad. All of these pressing problems are complicated by the fact that she must import large amounts of food and raw materials to meet her day to day needs. Her transitional difficulties are grave. We consider the restoration of British strength and prosperity vital to world recovery.

6. *The progressive development of the legal rules which affect commerce and travel between nations.*

Just as we must have a dependable structure of currencies for an expanding world trade, so, too, we need greater certainty as to the rights and duties of persons and property engaging in international commerce. In so far as universality and uniformity can be attained, so much the better; but certainty and impartiality are more important than uniformity.

IV. RECOMMENDATIONS

Conforming to the five principles which have been discussed in Part II, and with recognition of the six prerequisites for the fullest development of world trade which have been discussed in Part III, we now make the following eight recommendations:

1. *Efforts should be intensified to draw up programs and to make all possible preparations to attain and maintain in the postwar period high-level productive employment in the United States. These programs and preparations should be made co-operatively by all agencies and members of the community, public and private, national and local.*

The greatest single contribution which the United States can make to high levels of trade and employment throughout the world is to develop and to maintain a high level of employment, production, and consumption within its own borders. In serving ourselves by attaining our own prosperity, we serve all other countries as well. This objective is largely within our own control as a nation and warrants primary and urgent attention.

We recognize that the level of employment in the United States is not primarily dependent on international trade. It would be possible to have practically everyone within our own borders employed even if we discontinued imports and exports absolutely, but it would cause a great readjustment, much inefficient production, and a lower standard of living. Those defending exports on the ground that they are indispensable to high employment misstate the case. The big gain from foreign trade arises from the exchange of goods and services, in which we are more efficient producers, for foreign goods and services in the production of which we would be less efficient producers. The larger the volume of goods and services exchanged, the greater are the benefits which we get for our

work-effort, and the higher the standard of living which international trade makes possible. (*) (**)

It is true that for a short period a net export balance for the United States, financed by loans or gifts, might add to employment and business activity at home. But loans, if they are truly loans, must some day be repaid, principal and interest, in goods and services; and gifts cannot go on forever. The long-

(*) Footnote by Mr. John F. Fennelly:

I cannot accept the assumption that the volume of foreign trade has little or no direct bearing on the level of domestic employment. This argument is either an outgrowth of the tautological proposition that where full employment exists, increased foreign trade cannot increase employment, or else it carries implications which are not compatible with C.E.D. objectives.

Full employment is clearly possible without foreign trade in a totalitarian economy. It seems equally clear, however, that high levels of employment can only be maintained in a system of private competitive enterprise under conditions of a rising standard of living. From this, it follows that foreign trade for a free society is intimately connected with the domestic employment problem. To treat domestic employment as something separate and apart is to open the door to a set of national policies which lead in the direction of isolationism and totalitarianism.

(**) Footnote by Mr. Harry Scherman and Paul G. Hoffman:

Perhaps because it tries to be too brief, we think that this entire paragraph may add to, instead of dispel, misunderstanding about the true relationship between international trade and high employment in the United States. It may be true, as stated, that our "level" of employment is not "primarily dependent" on our exchanges of goods with other countries; since it would be possible to achieve high employment with our existing tariffs, and even (theoretically) if we dispensed with all imports and exports. The result of such a hypothetical policy, as the paragraph indicates, would be a decided lowering of our standard of living. But everybody always, in thinking and talking about this matter, assumes—and quite properly—that our present standard of living shall be maintained and even raised. And when this is assumed, importing on a large scale—as well as exporting—are indispensable to high employment *in the kind of economy with its high standard of living* that Americans now enjoy. There is hardly a manufactured product we make—either of consumers' or producers' goods—that does not greatly depend, directly or indirectly, upon some imported material for its quality, its marketability in quantity, its lower price, and in many cases its very existence. That is true, needless to say, of every highly industrialized economy. Thus, the *existing pattern of American production*, and with it our established occupational pattern—the products of our labor force and capital are daily engaged in turning out at present prices—is to a very large degree determined by our exchanges of goods with other countries, and particularly by the incoming side of that trade. Obviously, then, if that pattern of employment and production—with the resulting high standard of living—is to be kept at a high level, trade with other countries in large volume is indispensable. The point usually overlooked—and not touched upon in this paragraph because of its brevity—is that imports have far more of an influence on both the kind and amount of employment we have than do our exports. Until this indispensability of imports in our entire pattern of production is widely and sharply recognized, in all its detail, our international trade policies will continue to be distorted—as they have been for decades—by the basic error that exports are beneficial to domestic employment and that imports somehow lessen our total employment.

run justification for international trade—and it is a sufficient one—is that it raises the standard of living and the richness of living because of the products and services which have been exchanged.

2. *The channels for postwar trade should be cleared by prompt and final settlement of war debts and other obligations owed to the United States Government at the end of the war; they are a source of uncertainty and a burden on international enterprise.*

Clogging the channels of international trade with these undefined obligations is contrary to the interest of the United States. No conceivable payments or recoveries could offset the losses in trade that would occur year after year if they are not properly and promptly settled.

To achieve this end, we recommend: (*)

- a) *Repeal of the Johnson Act which forbids private loans to the governments of nations now in default.*
- b) *Prompt settlement of all foreign government debt to the United States Government arising from World War I, and of all net obligations to the United States arising under Lend-Lease or otherwise for goods and services actually used up in World War II. If the cancellation of any of these obligations is the most effective method of settlement, they should be cancelled. Such cancellation should be made only with the understanding that Article VII of the Master Lend-Lease Agreement (expressing the intent of the nations concerned to join in action mutually agreed on to promote the betterment of world-wide economic relations) remains in force.*

(*) Footnote by Mr. William Benton and Mr. Paul G. Hoffman:

We do not take exception to these three proposals, if the fact is emphasized that *they should form part of a coherent foreign economic policy*. Our foreign policy must recognize that our bargaining power, *in these areas as well as others*, is an important tool which can be used constructively 'for the world as a whole, and to help resolve the many issues which vitally affect American interests.

- c) *Lend-Lease goods not used up in the war should be disposed of according to the recommendations contained in C.E.D. policy statement on "Postwar Employment and the Liquidation of War Production." This statement recommends that American surplus property disposed of abroad should be disposed of in ways and on terms which will aid in the rehabilitation and reconstruction of the countries involved in the War.*
3. *Reduce, and eliminate when practicable artificial barriers to world trade. The United States should take the lead in its own interest in a program to bring about a great reduction in the artificial barriers to trade between nations, whether they take the form of tariffs, import quotas, restrictive exchange practices, subsidies, or restrictive business agreements. Such a program should include:*
- a) The removal of wartime controls over foreign trade at the earliest moment consistent with military necessity and the immediate economic after-effects of war. The large foreign balances held in the United States and the unsettled conditions created by the war are likely to necessitate trade controls in the transition from the war economy to an orderly peace economy.
 - b) The protective tariff of the United States should be lowered. To this end:
 - 1) *The Reciprocal Trade Agreement Act should be renewed and strengthened by making the 50% limit to reductions apply to the rates existing in 1945.*
 - 2) *Negotiations under the Act should be pressed vigorously so as to bring about substantial rate reductions.*

We feel that a prompt reduction in the American tariff barrier is of the utmost importance, as crucial evidence that the American people are prepared to take practical steps needed to heal a devastated world, attain high and profitable employment, and erase the economic obstacles to political peace. There is need to undo the Hawley-Smoot Act of 1930 and to go much further progressively toward a freer movement of trade. Nothing less than

the extension of the power under the Act to allow a negotiated reduction up to 50% from the 1945 rate in exchange for foreign concessions will give sufficient latitude to allow further substantial reduction in this barrier to trade.

In the Research Committee there is sentiment for recommendations that go further than the above: some members would favor a unilateral reduction of tariff rates. The advantage in the reciprocal treaty arrangement is that our reductions can serve as a lever for bringing about corresponding reductions elsewhere, to our advantage and the world's. We strongly favor continuing to lodge the authority for negotiating reductions where it now lies, as the only way to avoid objectionable past practices and to achieve results. We hope that Congress will act promptly in renewing *and strengthening* the Reciprocal Trade Agreement Act, as suggested, because further reductions in rate in the near future will cause less dislocation than if made later. Reductions in the near future will be only one of many transition problems, and would be by no means a large one against the general background of all our problems. It will mean that in the transition period American industry will work toward a more productive pattern by stimulating the expansion of those industries in which American labor and management are most productive. We shall receive more abundantly those goods and services from other countries which are superior to our own in quality, design and price. (*)

- c. We regard international cartels as tending to monopoly and the restraint of trade. *We recommend that policies be adopted by the United States and by private agencies that will eliminate monopolistic and restrictive cartel practices. All cartels which are allowed should be under public scrutiny. As with other measures tending toward the re-*

(*) Footnote by Mr. William Benton:

If substantial rate reductions are not achieved fairly quickly through reciprocal trade agreements, other and more direct means should be considered:

- a) An international conference for general tariff reduction;

- b) Unilateral reduction on the part of the United States, regardless of reciprocal action.

If such means do not achieve the desired reductions, then the United States should consider the abandonment of the "most favored nation" policy to permit bilateral action—with particular emphasis on tariff reductions on trade with the British Empire and Latin America.

straint of trade, cartels are a means to an end; and because of the limitation of competition intrinsic in the cartel method, the purposes to be served should be public, not private purposes. (*) (**)

The Research Committee of the C.E.D. has the cartel problem under investigation and intends to make further recommendations at a later date.

- d. *The uses of subsidy, including tariffs, should be reexamined from the point of view of broad public interest as a step toward formulation of national policy.* Subsidies should only be used as a matter of public policy when they are the best way to serve a necessary public end, and even then care should be exercised to see that they do not unduly upset the commerce or culture of other countries.

Obviously, subsidies should never be given to private enterprise as a general bounty merely for the sake of improving the profits of one private business as against other industries or segments of the population. Export subsidies should never be used by a creditor country as a means of

(*) Footnote by Mr. Ralph E. Flanders:

The word "cartel" covers all sorts of agreements. Before saying that any cartels should be "allowed", it would seem wise to restrict the possibility of allowance to a very small area.

It is my strong belief that some type of international commodity agreement must be found to take up the slack in the wide variations in price and production which have to be faced by the smaller countries producing raw materials, whether mining or agricultural.

Fluctuations of a given amplitude in the world at large bear very heavily on these smaller raw material countries, and for their protection, appropriate forms of international commodity agreements should be designed. If these agreements are directed specifically toward the protection of these small countries, the purposes to be served will be public, not private.

I can think of no other kinds of cartels which serve a public interest and would prefer to have some other name applied to the agreements described above.

(**) Footnote by Mr. William Benton:

In general, I subscribe to Mr. Flanders' comment. Many commodity agreements, however, have operated not only against the public interest but against the long-run interest of the producers themselves, and thus such agreements require both the closest scrutiny and public regulation.

The monopolistic cartel practices of private corporations operating in international trade are inconsistent with the public interest. The arguments against such practices transcend economic issues alone. Even if their vaunted efficiencies prove more than temporary—which has not yet been demonstrated—such concentration of power in private hands violates the spirit of enterprise, and runs counter to the traditions and spirit of a free people.

acquiring foreign business per se, or as a means of curtailing or eliminating foreign competition.

However, subsidies have been and can be a proper instrument of public policy to promote national security, to ease transitional readjustments in trade relationships, and to establish and maintain within the borders of the United States skills, arts and techniques clearly beneficial to the national interest which might disappear without public assistance. It is better that such subsidies should be open rather than hidden.

Advantages to open as against hidden subsidies are that open subsidies may be directed to a specific purpose for which specific performance is required. Grants of public money for specific performance can and should be safeguarded by proper agencies of inspection, regulation, and reporting, to disclose to the public the true cost of such intervention.

4. *Place the international movement of capital, public or private, on an economic basis.*
 - 1) *The export of capital, whether debt or equity, should not be stimulated as a device to reduce unemployment in the United States. Its purpose is to increase productivity abroad and thereby to gain the mutual benefits of expanded trade with its consequences for a higher standard of living. The United States should join with other nations not only to assist in the reconstruction of war-torn countries, but to increase progressively the productivity of all countries.*
 - 2) *We recommend that the Export-Import Bank be used, and its lending power be strengthened if necessary, to carry out and assist international financial transactions which are in the interest of the United States, but which are either unsuitable or impractical from the standpoint of private funds.*

- 3) *In order that loans may not be used when they are in fact gifts, and in order to speed world recovery and to advance our own interests in world trade, the United States should contribute to the organizations which Congress may designate to help in the relief and rehabilitation of war-torn and devastated countries.*
- 4) *In so far as feasible, the movement of capital should be carried on by private enterprise with the Government acting to facilitate private capital movements. As in the past, the Government should in general be informed concerning contemplated exports of long-term capital, and particularly if they involve capital issues which are to be offered to the public, with the right to object for reasons of national policy. (*) Government should also seek to improve the legal relations between United States investors and foreign peoples and countries through clarifying the existing legal relations and by attempting to increase the stability of such relations and their uniformity as between countries. If disagreements arise between American private investors and a foreign country where their funds have been placed, our Government should use its good offices to bring about an equitable understanding. A consistent, sympathetic policy by our Government towards the private investment of our capital abroad will inspire confidence, encourage the flow of capital, and, by reducing the risks, improve the terms on which the transactions are made.*
5. *Cooperate with other countries through membership in official international organizations.* For the purposes of this report, we refer particularly to those organizations which operate in the field of international commerce.

(*) Footnote by Mr. William Benton:

A related point is that loans should be destined for productive activity of the type which may assist the borrower in repayment, rather than loans for a war economy. Public or private loans from the United States should not support regimes where the trend is toward despotism and not freedom.

Specifically, The United States should continue to participate in the International Labor Office; should join in creating a permanent international commission on food and agriculture; should participate in a conference on employment and trade policy; should join in creating permanent international organizations in the field of commercial policy and in the field of health; and should encourage the development of an international body or bodies to aid in the promotion of art, science, technology, communication, and education.

Other constructive international commercial relationships should be encouraged as a means of participating in the reconstruction of a prosperous and peaceful world.

* * * *

The recommendations of the Bretton Woods proposals which follow have already been published, but since they were conceived as a part of this Statement, they are included for the sake of completeness of the document.

Recommendations on Bretton Woods Proposals

THE COMMITTEE FOR ECONOMIC DEVELOPMENT as a group of businessmen is deeply interested in the proposals made at Bretton Woods for the establishment of an International Monetary Fund and of an International Bank for Reconstruction and Development.

The efficient movement of International trade and capital will be facilitated by orderly relations among the various currencies of the world, and by the outlawing of the use of currencies and exchange devices for purpose of international economic warfare. Also, an orderly and adequate means of providing needed capital for world reconstruction and development will hasten the restoration and growth of production and trade with beneficial consequences for world prosperity and security.

Accordingly, in the United States high levels of productivity and of the standard of living will be more easily reached and more certainly main-

tained (a) *if the relation between currencies is orderly*, and (b) *if the financing of reconstruction and development is promptly and soundly arranged*.

The Research Committee, therefore, believes that it is necessary to create international machinery in which the United States would participate in order to obtain orderly international currency relations; to reduce the dangers of economic warfare; to make loans, underwritings, and guarantees in connection with reconstruction, development, and currency stabilization; and to provide arrangements under which currency and other financial problems, affecting world stability and prosperity can be freely and systematically discussed.

FIVE BASIC PRINCIPLES

In attaining those objectives certain principles should be observed.

FIRST, *we want the greatest order possible in international currency relationships without infringing the essential self-interest of any country*. We hope to gain the acceptance of long-term self-interest over short-run expediency in the management of currency relationships and to harmonize, so far as possible, the interests of all. We wish to eliminate caprice, unnecessary uncertainty, and hostile actions; we do not wish to interfere with the just right of peoples to deal as may seem to them proper with their own internal problems.

SECOND, *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 produced in the past, misunderstanding and bitterness between countries. If a gift cannot be made as a gift, it should not mask behind the facade of a loan.

THIRD, *in the making of loans, underwritings, and guarantees, for reconstruction and development, the amount and kind of the loan should be geared into the amount and kind of imports needed by the borrowing country for the approved reconstruc-*

tion and development projects. Uneconomic international debt should not be created for the purposes of relief or to bring about an internal expansion which might be better produced by and within the borrowing country itself.

FOURTH, *we must accept for some time as a condition of orderly currency relationships within the framework of long-term self-interest to ourselves and others, the continuance of methods of exchange control that alter what otherwise would have been the free flow of trade and investment. Although such methods are subject to abuse, they need not be harmful in themselves. The problem is that, when they are invoked, their use should be proper and not improper; and international consultation and cooperation will help attain this end.*

FIFTH, *creditor countries should behave like creditors, they should adopt measures that will make it possible for a debtor willing to pay his debts to do so. Debtor countries should behave like debtors, they should adopt measures that make it easier for them to observe the letter and spirit of their obligations.*

The Bretton Woods Proposals cover two sets of machinery, an international bank and an international currency fund. This machinery is intended to provide the means for making international loans and for short-term stabilization of currencies. We believe that both these objectives are desirable, whether they are achieved through two organizations or through one.

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

We believe that the lending objective can be accomplished satisfactorily through the proposed International Bank for Reconstruction and Development, although we do recommend some extension of its powers. The purposes of the Bank as stated do not seem to be sufficiently broad to include loans expressly intended to serve the requirements of long-continuing stabilization. We feel that the purposes should be so broadened.

The needed general stabilization loans which would assist in orderly monetary relations might be of two sorts. There will probably be a need

for long-term loans of a type for which there is no provision at present under either the Bank or the Monetary Fund. The Bank's loans, as at present provided, are to be for specific projects of reconstruction or development; but there will probably be a number of countries that will need some more general form of loan assistance than these specific projects imply—loans designed to provide for imports of a variety of goods and services *in a general restoration of a country's powers of production and trade*. There may also be a need for short-term credits to assist in the maintenance of orderly relations in currency transactions themselves. These short-term credits may be particularly needed toward the end of the transition period, as nations proceed to relax their exchange controls and to find the equilibrium rates of exchange to which their international accounts could be balanced in a freer exchange market.

The managers of the Fund require and deserve the protection to the clarity of their operation that would come from clear authority to the Bank to make loans for stabilization purposes when they are justified.

Otherwise, there will be pressure on the managers of the Fund to permit transactions not consistent with the short-term stabilization operations of a currency fund.

THE INTERNATIONAL MONETARY FUND

The purposes of the Fund are more difficult to attain than those of the Bank. The Fund is intended primarily as an agency of long-continuing monetary management. It is intended to give all member countries access to a common fund of currencies *in order to meet the short-term fluctuations in their international position*. The basic assumption for the successful operation of such a Fund is that there should be a tendency for international transactions to equalize, apart from short-term fluctuations.

The principal criticism of the Fund is that, in the abnormal conditions of the transition from war to peace, the expectation of an even-balanced position could not be realized. If serious unbalance developed, the Fund would become lop-sided, that is, frozen with unwanted currencies. The result would be much the same as though the surplus countries had made loans to the deficit countries. In this way the Bretton Woods Proposals in their present form might lead to a frozen Fund, cause international mis-

understanding, and thereby be more harmful than helpful to the cause of international monetary cooperation.

This risk of failure to work during the transition has raised the question whether the establishment of the Fund is urgent. The *urgent* need will be for specific and general credits to be granted to individual countries, rather than the need of general access to a common stabilization fund, which will become more appropriate when exchange controls are in process of removal.

But the Fund also provides for other important functions. It provides for international consultation on currency and financial matters as well as for ordinary clearing of currency balances. These functions are both useful and important.

Agreement on acceptable exchange practices, which would tend to prevent capricious change in exchange rates and to eliminate the use of currency and exchange devices for purposes of economic warfare, constitute a great advance in international cooperation. But it is true that these purposes could be served, if necessary, by the Bank, at least for the time being, leaving for a later day decision on the establishment of a separate currency Fund.

However, a significant feature that might disappear, if the consultation and clearing functions now set up in the Fund should be assigned to the Bank, *is the right of member countries to exchange their own currency for that of other countries, within limits and without the approval of the management of the Fund.*

The existence of this right is valued by every country, because it dignifies its relation to the Fund and to others, because it facilitates currency transactions, and because it avoids the necessity of a country going in debt to anybody as long as its purchase of a needed currency is within the framework of a bona fide currency transaction.

This right of access gives the Fund its short-term stabilizing power, but it also leads those who have reservations about the Fund to feel that the right might be abused, with or without intent, and that the United States would be forced to take actions to unfreeze the Fund; that the United States would be blamed by others for failure to take what would be considered adequate action to protect the Fund; and that we ourselves would

misjudge the distortion of the Fund, coming from the inescapable consequences of postwar readjustments, as evidence of bad faith on the part of others.

To be sure, these dangers can be minimized if the managers of the Fund have the courage and skill to invoke at the right time the protective provisions that are written into the Articles of the Fund. But there may be proper doubt as to whether the managers would be able, in fact, to exercise these powers, unless their position is strengthened.

The solution of this difficulty lies *in giving to the Bank the clear power to make loans for long-term and short-term stabilization purposes at times when such loans are needed and appropriate.*

The managers of the Fund can then refer to the Bank those transactions for which the Fund is not intended. They can also require a country to correct any seriously unbalanced currency position through recourse to the Bank when such recourse is appropriate, rather than by taking more drastic action. Thereby the Fund can be substantially protected. We believe that the danger of abuse of the Fund would largely disappear if the purposes of the Bank were broadened to include, expressly, loans, intended to serve needs for long-continuing stabilization.

We attach great weight to these considerations, particularly since the essential functions of the Fund, wherever located, require support of the Bank by powers not presently existing. We urge, therefore, that the possibility of strengthening the Bank be re-examined by the Government.

RECOMMENDATIONS

SIXTH. *We recommend the approval of the International Bank for Reconstruction and Development and also recommend that at an appropriate time, which would not delay its approval, its powers be broadened to include the extension of general long-term or short-term loans for stabilization purposes.*

SEVENTH. *After the Bank is strengthened in this way, we feel that the management of the Fund should be able to use the Fund strictly for currency transactions. Accordingly, the dangers inherent in the Fund as it now stands would be substantially reduced and we would recommend that the Fund be approved.*

We are well aware that the Bretton Woods proposals do not exist in a political and diplomatic vacuum. We know that there are considerations outside the proposals proper, some of which are matters of public record, some of which may not be. These considerations must be weighed by the Administration and by Congress against the risks that are inherent in (a) approving both the Fund and the Bank as now proposed, (b) approving the Fund, and the Bank strengthened as we suggest or (c) approving the Bank alone and assigning to it the currency stabilization function.

EIGHTH. Unless the Bank is strengthened, or unless there are weighty political or diplomatic considerations, we would recommend that certain functions of the Fund be carried on by the Bank and that the establishment of the Fund be postponed.

Additional copies of this policy statement may be obtained from your local C.E.D. Chairman, or by writing to the National office of C.E.D.

285 MADISON AVENUE, NEW YORK 17, N. Y.

About the Committee for Economic Development

POSTWAR PLANS, whether for manufacturers, wholesalers, retailers or any other type of business, are important first to the company or individual businessman making the plans. They are almost equally important to the community of whose economy the given business is a part. Finally, every separate postwar plan prepared and put into effect by America's more than 2,000,000 business employers, large and small, is important to America as a nation.

WHAT IS C. E. D.?

To help stimulate private enterprise to plan realistically for business expansion and greater employment after the war, the Committee for Economic Development, or "C.E.D.," was organized as a private, non-profit, non-political association of businessmen. To avoid mass unemployment, C.E.D. believes that American business should aim its planning sights toward—

1. Thirty to forty-five percent more business volume than in 1940, which would in turn provide:
2. Seven to ten million more jobs than in that same year.

C.E.D. is organized, under a Board of Trustees composed of twenty-seven of the nation's leading businessmen, into two major units—the Field Development Division and the Research Division.

The Field Development Division

The Field Development Division's basic job is to encourage bold and realistic planning by individual businessmen for more production, sales and jobs in their own companies.

To do this, local C.E.D. committees have been organized throughout the country. More than 2800 such local committees are already at work in most communities of 10,000 population or over in the U.S., as well as in many smaller towns and villages. The 60,000 individual businessmen who are volunteer members of these local C.E.D.s are in contact with an important segment of the nation 2,000,000 business employers.

Thus, on a company-by-company basis American business, large and small, is being urged to plan for expanded production, distribution and employment in the postwar period. Each local C.E.D. committee acts with complete autonomy in tackling its own postwar employment problems.

Nationally, the Field Development Division acts as a clearing house for the best ideas on

company planning. It seeks in this manner to provide to C.E.D. community committees, and through them to individual businessmen, large and small, all possible assistance in carrying on their postwar planning. This assistance takes the form of handbooks suggesting step-by-step planning procedures, sound slidefilms, charts, etc.

To prepare such material, the C.E.D. has mobilized the nation's outstanding business experts in various phases of business activity—production, sales, advertising, etc. These experts, formed into twenty-seven Action and Advisory Committees, have pooled their "know-how" for the benefit of all businessmen.

The Research Division

The efforts of individual businessmen and companies to expand and increase employment—important as they are—cannot succeed unless we have a favorable "economic climate," in which individual plans will have a chance to become realities.

In order to determine what policies of gov-

ernment, business, labor and agriculture will best contribute to an expanding economy, the C.E.D. Research Division was organized. Under the C.E.D. by-laws "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group."

The Research Division consists of three parts:

1. A Research Committee of businessmen. After months of careful study and frequent meetings with members of the Research Advisory Board and Research Staff, this Committee issues official *Statements on National Policy*, such as the following:

"Postwar Employment and the Settlement of Terminated War Contracts," published in October, 1943.

"Postwar Employment and the Liquidation of War Production," published in July, 1944.

"Postwar Federal Tax Plan for High Employment," published in September, 1944.

"Postwar Employment and the Removal of War-time Controls," published in April, 1945.

The Research Committee is also charged with the responsibility of selecting subjects for study and authorizing independent *Research Reports by outstanding experts*. (See list of Research Studies on this page.)

2. A Research Advisory Board of economists and social scientists. This Board consults with the Research Committee and gives the businessmen the benefit of specialized knowledge. It also has the responsibility of approving, in terms of technical competence but not in terms of content or conclusion, independent *Research Reports* made by the experts on the Research Staff.

3. Research Experts have been engaged by the Research Director on the basis of special qualifications to undertake special studies.

Once a subject is assigned, the economist has complete freedom of conclusion and expression. The results of his Research are, however, discussed at frequent meetings of the Research Committee of businessmen, sitting with the Research Advisory Board of economists and social scientists. As the facts are clearly developed, the areas of disagree-

ment are gradually narrowed down. *The author is the final authority on both the content and the wording of his Reports*, and thus he alone is responsible for its conclusions, which may or may not agree with the official *Statement on National Policy* issued by the Research Committee of businessmen.

The following *Research Reports* for the C.E.D. have been completed by the authors and published by the McGraw-Hill Book Company, Inc.:

"Production, Jobs and Taxes"

by Harold M. Groves

"The Liquidation of War Production"

by A. D. H. Kaplan

"Demobilization of Wartime Controls"

by John Maurice Clark

"Providing for Unemployed Workers in the Transition," by Richard A. Lester

Publications of the C.E.D. Research Division fall, therefore, into two categories:

- (1) *Official Statements on National Policy* issued by the C.E.D. Research Committee of businessmen.
- (2) *Research Reports* embodying the individual views of the scholar assigned by the Research Director to each special Study.

The Value of Economic Research to Individual Businessmen

Both the number and the complexity of the problems of reconversion, transition, and postwar expansion make it difficult for the unaided businessman, preoccupied with war-time work, to keep abreast of developments and to think through their implications for him.

C.E.D. urges that all businessmen make a strong effort to study the facts and to utilize research material available from all sources, that they may be better able to plan for postwar progress in their own enterprises, and contribute to the broader objective of achieving a sound and stable "economic climate" favorable to business activity and job expansion. This applies not only to "top management," but to executives in the production, sales, personnel and other staff divisions who share in decision-making, and certainly to the small businessman, who must make all of his postwar planning decisions himself.

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