

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 12, 1946.

To Chairman Eccles

Subject: Excerpts from recent speeches

From Mr. Knapp

by National Advisory Council members.

Several National Advisory Council members addressed the National Foreign Trade Convention in New York in the middle of November and all of them placed great emphasis upon the importance of imports in our future economy. The following excerpts from their speeches are examples:

Will Clayton:

"With a substantial increase in population accompanied by a fifty per cent expansion in domestic economy, we need more of foreign goods of all kinds. Much larger imports of raw materials are required to feed our greatly expanded facilities for the manufacture of producer and capital goods. Our productive facilities in the consumer goods field have shown comparatively little increase in the past decade; hence, our need to import larger quantities of such goods to satisfy the demands of a prosperous and growing population.

"It will require less than a billion dollars a year for twenty-five years to completely amortize all the foreign credits made available by our Government since the end of the war, including our contributions to the International Bank and the International Monetary Fund. After a few years, this sum should be provided by the annual expenditures of American tourists alone.

"Many people still look upon the United States as nearly self-sufficient. As a matter of fact, this was never true by any modern standard and it is much less true today than ever before.

"Due to the serious depletion of our natural resources during the war, we must now import many metals and minerals which before the war we even sometimes exported, such as copper, lead and zinc. Today we must annually import 150 to 200 million dollars worth of copper alone, whereas before the war, we sometimes exported copper.

"Indeed we are today net importers of practically all the important metals and minerals except two--coal and oil. Who knows how long we can go without importing oil?

"In the past, the emphasis in our foreign trade has been on exports; within the near future it will probably be on imports. This is true because of our shift from debtor to creditor; because of the depletion in our natural resources and because of the wants of a growing and prosperous population."

W. Averell Harriman:

"Now about imports. Historically our national energies have largely been directed to developing exports. In this connection I said in a recent speech 'No one makes himself rich by simply divesting himself of property. It is true that exports give employment but unless we get something in return we are the losers. Therefore emphasis should be given to the expansion of our imports from all countries of those things which will improve the well being of our people.'

"In fact our whole program of fostering world commerce depends upon the success we have in developing imports and our use of the services of other nations. I hope that this Council will make it one of its major projects to study what we can soundly do to foster expansion of imports, travel, etc.

"The Department of Commerce will gladly work with you in this field. We should assist other nations to understand the untapped markets that exist in this country for products that are peculiar to them--products that can contribute to the welfare and fuller life of our people.

"It is vital to us that we have assured and adequate supplies from abroad of certain raw materials in increasing quantities as our economy expands and our natural resources diminish. We can use many products of other countries that are difficult for us to make ourselves. Nothing is more broadening than foreign travel in the education and in the development of an informed American people as citizens of the world."

Mr. Harriman also remarked elsewhere in his speech that "We should recognize the necessity of maintaining import controls for the time at least in order that with our great ability to buy we do not inflate world prices unduly and prevent other nations from attaining their fair share."

Bill Martin:

"The third aspect of the rehabilitation effort, the necessity for repayment of the long-term dollar credits, poses one of the most challenging problems this country has been called upon to face. If we are ever to be repaid for these credits it will be essential for the American people sooner or later to accept a commodity import surplus as normal and proper.

"The Board of Directors of the Export-Import Bank shares the opinion that an increased volume of imports is one of the essentials of a healthy, thriving United States postwar foreign trade. The Bank has a very special interest in this matter by reason of the specific requirement in our statute that we have reasonable assurance of repayment before making a loan. It is the opinion of the Board of the Bank that, if the broad effort to revive world trade and reestablish an effective multilateral trading system succeeds, all the countries to whom we have made emergency reconstruction loans should have no difficulty repaying the loans. It is our further view that the greatest hope for a revival of world trade and successful solution of the repayment problem lies in an appropriate expansion of imports into this country; indeed, in the absence of an indefinite continuation of U. S. foreign lending, this is the only way in which the borrowing countries will be able to meet the service charges on their obligations and continue to buy the products of this country essential to their welfare.

"In this connection we have welcomed the enlightened discussion of the import problem in recent months by such informed private bodies as the National Foreign Trade Council, the Twentieth Century Fund, the Committee for Economic Development, the Aldrich Committee and others. We all realize that the task of educating American public opinion to the necessity of an expansion of imports, if U. S. foreign trade is to be put on a permanently sound footing, is a formidable one; in my opinion it is probably an impossible one without the continued enlightened leadership of such groups as yours.

"For its part, the Bank has devoted, and will continue to devote, a great deal of attention to the import aspects of all the loan applications before it. In the case of all the Bank's general developmental and reconstruction loans the direct connection of the proposed loan with the creation of additional foreign exchange has always been studied. The contribution of any loan to the solution at least of its own

"foreign exchange problem has always been a factor present in its consideration. In its appraisal of loans the Bank regards financing of the production of commodities suitable for exports from the foreign country to the United States as a consideration as important as the promotion of exports from the United States."

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Mr. Martin made some remarks on other subjects which may be of interest to you, (1) with respect to relations between the Export-Import Bank and the National Advisory Council:

"The assistance rendered by the National Advisory Council to the Board of Directors of the Export-Import Bank in connection with its emergency reconstruction credit program has been invaluable. Before the Bank actively considers any loan application from a foreign government the application is referred to the National Advisory Council for its consideration from the standpoint of policy and coordination. Once a given application or class of applications have been 'approved for consideration', as the action of the Council is now worded, the Export-Import Bank assumes full responsibility for the final decision as to whether or not the loan should be made and on what terms and conditions. This use of the Council mechanism attunes Export-Import Bank lending to U.S. foreign policy while retaining in the Board of the Bank, as it was obvious Congress intended, the veto power over indiscriminate or unsound loans. In view of the extreme complexity of the foreign lending problems, and the close inter-relationship between the foreign loan applications to the Bank and to other Federal agencies, the Export-Import Bank would have been faced with a well-nigh insuperable task in attempting to carry out its emergency reconstruction program expeditiously without the assistance of this machinery."

(2) with respect to private foreign trade financing:

"I am convinced there is a real and continuing need for the services of the Export-Import Bank as an organizer and trail blazer in financing foreign trade. But our whole purpose will be defeated if private capital is not better organized than it is at present to supplement and further our activities. The Export-Import Bank is pursuing as diligently as possible a policy designed to return trade to private channels and to this end is avoiding wherever possible the government-to-government credit in favor of so-called exporter credits in which domestic

"suppliers participate. The Bank created early in 1946 a Private Capital Participation Division which maintains close contact with financial markets and provides information regarding our current portfolio in order that its commercially bankable paper may be made available to private investors within the limitations of the regulations of the Securities Exchange Commission. Ultimately, perhaps, we may have private Export-Import Banks, and then the Export-Import Bank of Washington can act as a sort of central bank for these banks of foreign trade. There is much pioneering work to do in this field and I know we can depend on the National Foreign Trade Council to be a leader in seeing that a sound course is developed."