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1937

THE WILLARD HOTEL
Washington, D. C.

February 16 - 1937

Dear Mr. Davis:

There are two features of the increasing holdings of U. S. securities by foreigners which have received little or no attention in the press, though I am sure the Treasury has fully considered them. First the interest or dividends on eight billion dollars worth of securities will amount to three or four hundred million dollars annually which must go abroad either in gold or goods; and either method would surely be eminently satisfactory. Since neither party seems able to help the export of U. S. goods by seriously lowering the tariff and admitting goods in payment for exports, the foreign credit created by the large outflow of interest or dividends is surely a great help to U. S. foreign trade - it creates a market which could otherwise only be created by lending money abroad and that under existing conditions is practically impossible.

The second feature is that the creation of three or four hundred million dollars worth a year of dollar exchange might (if the credit is not used up entirely for exports) make it possible to liquidate a fair amount of the war debts. I do not believe that the full liquidation of these debts is possible - in fact I hold very strongly that the world would have been much better off if they had been written off right after the war - and the ideal policy would still be to write them off. But human nature being what it is such an ideal policy cannot possibly be carried out and surely the time must be coming near when Congress will be willing to take half or quarter even of the loaf. Yet no settlement of any sort is possible without a continuing condition of the exchange market which would make it possible for foreign governments to buy enough dollar exchange every year to take care of the annual payments on a scaled down debt. I cannot help thinking that the huge foreign investments in U. S. securities has brought about as if by act of providence a situation where a final settlement is actually within range of practical politics and I, for one, would be sorry to see such drastic tax legislation as might not only dry up foreign investing over here but might actually cause a heavy liquidation.

Perhaps I am all wrong on this - but at least there may be something in the idea.

Hoping very much to see you again before we sail, I am

Sincerely yours,

W. J. Whigham

February 17, 1937.

Mr. H. J. Whigham,
The Willard Hotel,
Washington, D. C.

Dear Mr. Whigham:

It was thoughtful of you to give me your further thoughts on the inflow of foreign capital. I wonder if you have read Ernest K. Lindley's article in the SATURDAY EVENING POST of February 13, which is entitled "Can 8 Billion Dollars Stay Neutral?"

I believe I agree with you as to the potential usefulness of the income from securities held by foreign investors, as this income may be used to finance United States exports, or as it may be applied against the war debts. I am not clear as to the influences which might cause income to be used for either of these purposes. Is it not more likely that the income will be reinvested here in American securities as long as that market presents great relative attractions?

Sincerely yours,

COPY

THE SAVOY-PLAZA
Fifth Avenue 58th and
59th Street

New York

Saturday

Dear Mr. Davis

Thanks very much for your note. Now that the policy dealing with the inflow of foreign capital is freely discussed in the press, I thought I would consult two of my brothers in London (economic royalists both, I'm afraid) as to what the result would be in their opinion of higher taxes on foreign investments here. I'm afraid, however, I will not hear from them before I sail two weeks from today for Europe.

I confess that I can't see any danger from the possibility of interest and dividends being reinvested in U. S. A. In the long run investors do have to get interest on their investments, so that the outgo of payments for interest and dividends is bound to be large. The Commerce Department (vide N. Y. Times this morning) put that outgo at $146,000,000 in 1935. It must be much greater now both because investments have increased and because dividends are much higher. Therefore it is not too much to guess that the annual income accruing to foreigners is running at a rate of over three hundred millions - most of which will have to be exported in gold or goods - or would have to be if there were not a much bigger inflow of interest, etc. into U. S. A. from the enormous American investments abroad.

Is it not rather unreasonable to expect that America can maintain that huge block of foreign investments most of which are actually paying a very high rate of interest and yet should deliberately try to check a much smaller inflow of foreign investments in U. S. securities? The Department of Commerce figured that U. S. A. received over 520 millions in dividends and interest from abroad in 1935. This may, doubtless has been, slightly reduced in the last year but it is still a very large annual tribute for a protectionist country to receive - and would in itself result in continual gold imports on a very large scale unless there were the counteracting influence of big foreign investments here. I cannot help thinking, therefore, that big annual income coming to foreigners from these investments must have a beneficial effect on the general situation, encouraging export of U. S. goods and raw materials.

What confuses me is that little or no stress is laid in the press on the fact that foreign investments in U. S. A. were far greater in the years just before the war than they are now. I don't know how high the Treasury figures the investment from abroad in U. S. securities now. I should think that six billions would be well above the mark. But that is six billions of 60 cent dollars compared with 1914. In other words the gold value of foreign investments over here was far greater in 1914 than now and no one worried about that. The bulk of these securities went to pay for raw materials and war supplies in the early part of the great war and it was only when the securities ran out that borrowing took place. That these holdings of U. S. securities existed in 1914 was very lucky for the Allies, - but no one can really pretend that these holdings had been built up by England and France for use in a future war. Holland for her size was probably the biggest investor of all - just as she may be now - and Holland is not preparing for war. I suppose the strict neutrality people may argue that by building up a reserve of investments here England and Franc would have a favorable position here in comparison with let us say Germany, Italy or Russia, which would be "unfair". The answer to that is the strict neutrality people (the Pontius Pilates) have lost all sense of world progress, or they would not be so anxious to treat innocent and guilty alike. There is only one nation in the world today that would like to wage a successful war and that is Germany - and even Hitler and his army leaders have little belief that any such war is possible, in the near future. But if in their expansive moments they do contemplate war they must know that one of the most important factors making for their defeat is the reservoir of capital belonging to England and France and lying in this country beyond their reach. That this reservoir would in itself drag America into the next war is a thesis which has no validity. If money had an influence in dragging America in last time - it was not because England and France had large investments here - but rather the reverse. It was only when these investments were used up that borrowing on a large scale began and then if you like the fact that U. S. A. had lent the Allies so much might well have influenced the more selfish lenders to advocate American intervention in the war. But the Government might easily have prevented that borrowing. And just as a large reservoir of capital over here belonging to the democratic nations might be a distinctly discouraging fact for the Germans to contemplate, so also if war should happen involving the old line up in Europe, this reservoir would obviate all necessity for allied borrowing over here for a long time and so obviate any reason for selfish American intervention (I mean a clamor for intervention on the part of selfish interests). And in any case I think it is high time that we should all get away from this war neurosis. The neutrality mongers in Congress are behaving like a lot of hysterical old women who cannot sleep unless their beds are entirely isolated by burglar alarms. I think you will agree with me that even Germany is thinking far more about her economic salvation than about war. And I imagine that Hitler (altho' he has no sense of humor) must sometimes laugh at the shivers he sends down other people's spines when he is just a little shaky himself.

And so it seems to me wrong to interfere with the flow and interflow of commerce and capital just because some faction is afraid that such and such a condition of investment might have the wrong effect in a war which may never take place. This isn't to say that the foreign investor should not pay his footing. If the capital gains tax is fair for Americans it is surely fair for foreigners. But to use a strong antitoxin to treat a condition which has not yet been proved unhealthy might be the easiest way to produce disease. Of course I still think that we may someday wake up to find that we have sold good securities, etc., for worthless gold - But that is quite another problem. Please excuse this much too long letter. We sail March 6 for Italy, but I hope to be in Washington first.

Sincerely yours,

H. J. Whigham