

ANGLO-AMERICAN FINANCIAL AGREEMENT

Friday, March 8, 1946

United States Senate,
Committee on Banking and Currency,
Washington, D.C.

The committee met at 10:30 a. m., pursuant to recess on yesterday, in room 301, Senate Office Building, Senator Alben W. Barkley presiding.

Present: Senators Barkley (presiding), Radcliffe, Murdock, Fulbright, Mitchell, Carville, Taft, Butler, Capper, Buck, Millikin, Hickenlooper, and Capehart.

Senator Barkley. The committee will come to order.

Mr. Eccles, will you have a seat there and submit yourself to the inquisition? Have you got a statement you have prepared?

Mr. Eccles. Yes, I have one here.

Senator Barkley. Would you like to finish that statement before you are interrupted?

Mr. Eccles. Yes, sir.

Senator Barkley. If anybody wants to ask a question about it, will you stick a pin in it and go back to it after he finishes?

Mr. Eccles. It is not very long.

Senator Barkley. That is in its favor. You may give the reporter there your name and position.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN OF THE BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, WASHINGTON, D. C.

Mr. Eccles. Mr. Chairman, I appreciate this opportunity to appear before this Committee to express my views on the proposed British loan. I learned about the British problem the hard way--by weeks of continuous negotiations in which we thoroughly explored the British situation and every proposal for dealing with it. I should like to summarize my conclusions by offering answers to three questions:

1. Why do the British need our help?
2. What would it cost us to give this help?
3. What would we get in return?

First. Why do the British need our help? They need it because they have just finished an exhausting war against our common enemies. They need a blood transfusion to help them regain their international economic health. The proposed credit is not and, therefore, should not be judged as a commercial loan. It is more like a draft on a blood bank.

Why has the war left Britain in this anemic state? Because in their extremity the British threw all their resources into the battle without reckoning the cost in terms of where they would be left after victory. Domestically, their economy can be readily converted to peacetime purposes. Internationally, the wartime drains on their resources have reduced them to the point where their only alternatives are to gain recuperative help from us or else to attempt recovery through exploitation of the Empire system.

The British Isles are normally a great workshop. The British people depend for their existence upon large imports of food and raw materials. They need the food to exist. They need the raw materials for manufacture into the goods which they consume and those they sell abroad. Only by selling goods and services abroad can they get the dollars necessary in the long run to buy what they need abroad. We, in America, who live so largely from the resources within our Nation, sometimes forget how different is the situation of countries which cannot survive without a large measure of foreign trade.

Britain's export trade, the main source of her international earning power, was down to one-third of normal by the end of the war. Why? Because in her wartime partnership with us, it was agreed that she should concentrate her efforts on war production while we provided her essential imports under Lend-Lease. Lend-Lease abruptly ended on V-J Day. Britain's struggle to rebuild her export trade did not begin until that day. It will take years for her to rebuild her exports, especially since they must now rise far above the prewar level to make up for her wartime loss of income from her overseas investments.

Before the war Britain was one of the greatest creditor countries in the world, receiving each year close to one billion dollars of net income from her foreign investments. The necessities of war compelled her to liquidate a large part of her foreign investments and to incur, in the form of frozen sterling balances, foreign obligations amounting to approximately 12 billion dollars. As a result, her net income from foreign investments has been reduced to about 400 million dollars. Not only has she lost this income, but she has lost liquid assets which might otherwise have been available to tide her over this postwar situation.

This, in brief, is why the British seek our help. There is nowhere else they can turn to get the help which they need in addition to what they can get from within the Empire.

Second. What would it cost us to give this help?

We are asked to provide a line of credit of \$3,750,000,000 to be drawn over a period of from three to five years. The British wanted, and made a strong case for much more. The American negotiators, however, were not willing to ask the Congress to provide more than we concluded was the irreducible minimum needed to do the job, having in mind (1) Britain's urgent requirements for foreign goods, based on continuation of an austere standard of living for her people, (2) her capacity to pay out of her own resources, and (3) the amount of help she might obtain from countries other than the United States.

What does a loan of \$3,750,000,000 cost the United States? The interest rate which our Government has to pay on borrowed money is not the important matter that some have tried to make it seem. The real question is the strain on our financial and economic resources. That involves a real cost. I scarcely need remind you that we, too, have inherited troubles from the war. We have a national debt of nearly 280 billion dollars. We still face dangerous inflationary pressures because of the excessive purchasing power created as a result of the way in which we financed the war and because of our great shortages of goods relative to this purchasing power. The expenditure in our markets of dollars provided under this loan would admittedly add further inflationary pressures to our economy at this time.

Fortunately the added pressures would not be as heavy as they might seem at first sight. Expenditure of the dollars provided in this proposed loan would be spread out over several years. Some of the dollars would be spent initially in other countries and might take some time to find their way back to our markets. Some would be spent on commodities which are not in short supply. And unless we bog down in the management of our own affairs at home, our vast capacity to produce goods will progressively overcome the shortages during the life of this extension of credit.

It was neither practical nor desirable to attempt to specify as a condition of the loan how, or when, or for what the dollars should be spent in our markets. We already have and should retain the over-all control of exports, through export licenses, whereby we can exert a real measure of control over the timing and nature of all foreign demands, whether they arise under this loan or otherwise, that may be made on our economy during the period of inflationary pressures. However, we shall have to share with the world some of our scarce resources. This fact has been recognized in our food program. We shall need to recognize it as it affects other necessities if we are to help bring about economic and political stability in the world. This takes me to my third point.

Third. What would we get in return? Out of this proposed loan, which is an integral part of a far larger fabric of international arrangements, we expect far more than a mere financial return. The contract provides for repayment of the principal and for a moderate rate of interest. But at this

juncture in our affairs we are not looking for loans just for the sake of playing the role of world banker. Only the most real and urgent reasons, based on our own national advantage, would justify our incurring the costs of any foreign loan at this time. If the granting of this British loan does not reasonably promise lasting benefits and compensations to the United States which far outweigh the financial considerations involved, the loan should not be made. If I did not feel that this loan is in the deepest sense in the interest of this country, I would not be here today recommending that you approve it.

We live today in a sick world. We have yet to attain the objectives of the Atlantic Charter, freedom from want and freedom from fear. These objectives will never be attained, and our ideals of peace and democracy cannot long survive if we merely indulge in pious hopes and do nothing to prevent the world from degenerating into further economic chaos in the aftermath of the most devastating of all wars.

What are we doing about it? As you know, the American Government has taken the lead in drawing up treaties of economic peace as the basis for a stable world order. We have laid down "rules of the game" for a peaceful and productive system of world trade and finance, first in the Bretton Woods Agreements and then in the proposals for an International Trade Organization. The basic justification for the British loan is that it would enable Britain to join with us in making a living reality out of these blueprints for world recovery and reconstruction.

British interests in this field correspond with our own. No country has a greater stake in a sound and healthy world trade than Britain. With the loan, the British will be given the help they need to work out of their postwar predicament in a peaceful and orderly way. They would open their markets to the world on a basis of non-discrimination and receive access to foreign markets on the same basis. They would be able to make pounds sterling earned by foreign suppliers of the British market freely convertible into other currencies so that trade would no longer be arbitrarily channeled along bilateral lines. They would become part of a world trading system, which is essential to the maintenance of employment and economic stability in a democratic world.

On the other hand, if we refuse the loan, the British would be forced to make a desperate bid for economic domination in large areas of the world. They would have to intensify their trade and exchange restrictions, and to resort to every economic device to gain advantage in world markets and obtain necessary supplies. This would force a large part of the rest of the world into retaliation along the same lines. As a matter of self-preservation countries would turn increasingly toward state trading and barter. The British people would suffer privations even greater than in wartime, and no one could say whether freedom and democracy could survive such conditions there. Along this road lies further totalitarian development.

Such a prospect would be profoundly disturbing. If our relations with the British Empire degenerate into a state of bitter rivalry between trading blocs, can we retain any hope of salvaging a decent peace from the wreckage of war? Faced with this situation, we are asked to provide a sum equal to fifteen days' cost of fighting the war. I believe that if we could afford to give 21 billion dollars of Lend-Lease aid to a partner in winning the war, we should be able to lend a small fraction of this sum to secure a partner in winning the peace. If the war had lasted longer, as many expected, we would not have hesitated to furnish further Lend-Lease aid to Britain even though the amount might have far exceeded this loan.

But what about the risk of default? Of course it exists. We cannot foresee the conditions which will prevail over the rest of this century and neither this loan agreement nor any of the other economic arrangements into which we now enter can survive a state of world-wide economic collapse such as we suffered during the Great Depression. But if the world economy is restored to a healthy basis, the payments on this loan, amounting to no more than 2 per cent of Britain's annual expenditures abroad, cannot be judged burdensome. Let me impress this thought upon you: that our very purpose in making the loan is to create the conditions in which it can be repaid,

You will have noted that I advocate this loan on its own merits and primarily as a contribution to world stability. I do not believe in foreign lending for the sake of creating employment here and exporting unemployment to foreign shores. 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.

The decision is in your hands. It is a fateful one. Without effective British participation, which is possible only if we lend our aid, the Bretton Woods institutions cannot fulfill the hopes which we have placed in them. Without the fulfillment of these hopes for a stable economic order in the world, there is little prospect of success for the United Nations Organization in its search for political stability and security. Without economic or political stability, we can expect only a continued drift of world affairs toward the catastrophe of a third World War.

Is there not finally another compensation if we make this loan? It arises from the American sense of fair play. Are we the sort of people that would fail to help in an hour of great need a stout-hearted ally dedicated to the institutions of freedom and democracy--an ally which once stood alone through the long dark night as the only barrier between this

country and Axis aggression. As we review the past, let's not forget that while the British owe us much, we also owe them something.

That is the conclusion of my statement, Mr. Chairman.

Senator Barkley (presiding). Do the members of the committee wish to ask any questions of Mr. Eccles?

Senator Buck. Mr. Chairman-----

Senator Barkley. Mr. Buck.

Senator Buck. I would like to point out that Mr. White of the Treasury Department in an article he wrote for Foreign Affairs, issue of January 1945, had this to say in discussing Bretton Woods:

A loan to Britain to enable her to establish exchange stability and freedom from exchange control will not of itself help significantly with Britain's problem, or with the world's problem, of establishing a sound postwar pattern of international payments. On the other hand, the fund or the bank by providing the favorable conditions necessary for expanding that trade investment would be of real help in establishing a sound postwar pattern of international payments and would contribute substantially to prosperity in this country and abroad.

I wonder if the Governor would agree with that statement.

Mr. Eccles. Well, I didn't appear to discuss the Bretton Woods program. I would say that the Bretton Woods arrangement without a loan to Britain could not be effective, and I would say a loan to Britain without the Bretton Woods arrangement--that is what is known as the key country approach--would be equally a failure.

Senator Buck. Mr. White seems to think it was not necessary to have a loan.

Mr. Eccles. I would not take it that is what Mr. White said. I would take from what you read there--it is not very clear, I will admit--but I think that the implication there is that the loan alone, which was the key country approach, would not in and of itself meet the international problem of exchange stability and multilateral trading.

Senator Buck. He says in conclusion that such a loan might burden the dollar debt.

Mr. Eccles. I think without the Bretton Woods agreement, it would. I think you need Bretton Woods to get a whole world trading arrangement. I think with just the loan without the bank and the stabilization fund as

a mechanism in which Britain could take her part, that Britain would have considerable difficulty in meeting the problems.

Senator Taft. That is not what Mr. White says. We are asking you if you agree with his statement.

Senator Barkley. It might be well in that connection to read all that Mr. White said and not pick out a certain paragraph.

Mr. Eccles. I don't care to comment on it. If you want to ask me some specific questions as to what I agree with, instead of whether I agree with Mr. White, I will be glad to answer them.

Senator Taft. I might say that Mr. White told us the same thing in an executive session as an argument for us to approve the Bretton Woods agreement.

Mr. Eccles. I think it would be a good thing to ask Mr. White to come up here and explain what he meant.

Senator Barkley. Of course, at that time the Bretton Woods proposal was before us alone, was it not?

Senator Taft. Exactly. That was his argument for getting us to pass the Bretton Woods proposal.

Senator Barkley. Well, the whole picture as to what might happen under Bretton Woods and under the loan could not at that time be visualized, because nobody knew at that time whether the loan would be asked for or not, although it was generally understood it would be, but it had not been officially asked for at that time.

Mr. Eccles. The idea of making a loan when you didn't have any idea of when the war was going to end and you didn't know what Britain's needs were going to be, would have been perfectly ridiculous. It was impossible to consider a loan to Britain in 1944 when the Bretton Woods arrangement was set up. The Bretton Woods arrangement was merely a mechanism to go into effect to provide rules of the international game, where all countries could come in on a basis as established by those rules. It was an arrangement that had to be and should be set up during the period of the war, just as the United Nations. You undertook to set that up during the war. You did not wait until the war was over.

Certainly there is no perfection to be achieved and it is a perfectly easy thing to look back 2 or 3 years and to say you should have done this, or you should have done that; or you should have seen this, or you should have seen that. I am sure all of us will recognize in the kind of world we are in today that the judgments we might have had 2 years ago, in the light of what has happened since, may not look as perfect as we thought they were at the time.

Senator Taft. Mr. Eccles, it could not have been very unreasonable because Mr. Williams, head of the Federal Reserve Bank of New York, appeared before us and advocated a three billion loan as a substitute for Bretton Woods.

Mr. Eccles. I disagreed thoroughly with Mr. Williams and everybody else in the Federal Reserve, practically, disagreed with him, except Mr. Sproul. Mr. Sproul and Mr. Williams stood practically alone, without any support.

Senator Taft. You say their proposal was ridiculous.

Mr. Eccles. I think the proposal at that time was, whether it was Mr. Williams', or anybody else.

Senator Barkley. Even if Mr. White was correct in saying a year ago or more that this loan would saddle Great Britain with a dollar debt, Great Britain has asked that she be saddled with it. She is asking for it.

Now, it is up to us to decide whether she should get it, even assuming that it is saddling Great Britain with a dollar debt--the word "saddle" may not be the appropriate term--but at least it is the imposition of a three and three-quarter billion dollar debt and she is asking for it.

Senator Fulbright. If I recall their testimony correctly, Mr. Sproul and Mr. Williams, although they opposed Bretton Woods, did say that if Bretton Woods did pass, this loan would be necessary to make it operative.

Senator Barkley. That was my understanding.

Mr. Eccles. They have always thought a loan would be necessary, whether you had Bretton Woods, or not.

Senator Fulbright. That was my understanding. They thought first they would prefer the loan, but if you had the loan, they still thought Bretton Woods would be necessary.

Mr. Eccles. If I understood Mr. Williams' position it was that the loan should be made first, but they hadn't asked for it at that time. You could only guess what they might need, but he felt that the loan should be made to Britain and that we should undertake to establish the relationship between the dollar and the pound. That is what was known as the key country approach, under which we would make the rules of the game with Britain, and the rest of the world could come in and take them or leave them.

Now, I don't think that would have been a very wise international political move or a very wise democratic move. It certainly would not have helped in connection with the development of international political organization. I think it was very much better to have all the nations of

the world invited to come in and help make the rules for the establishment of an international fund and a world bank. Britain didn't want the loan at the time. Britain didn't agree with Mr. Williams and some of the others. But Britain agreed exactly with what was done. Britain did not indicate at the time, so far as I know, that she would not need a loan. She just didn't know what her situation would be when the war was over. So we were doing first things first. I think that the British loan comes now in proper order. The need has been determined.

I am quite sure that even the people who were opposed to undertaking the Bretton Woods arrangement first are unanimously in favor of this loan. I understand Mr. Williams' and Mr. Sproul's position today is not only very much in favor of the loan, but they would go much further both with reference to the terms of the loan and the amount of it.

Senator Taft. Did you see the statement in the press that Great Britain said that they would withdraw from Bretton Woods if the loan was not granted?

Mr. Eccles. Yes. I would not think they could function under Bretton Woods without the loan. When one-third of the business of the world is done on a basis of sterling, it seems to me that an international stabilization fund is a mirage unless sterling, the currency in which one-third of the business of the world is done normally, is convertible.

Senator Taft. That is what we said when we had the Bretton Woods proposal before us; that it was a mirage, and the argument was, oh, no, it is going to solve all the problems, and this 5-year postponement was made. That is what Mr. White kept telling us.

Mr. Eccles. I don't know what Mr. White said, but I would not have said that.

Senator Murdock. Do you take the position now, Mr. Eccles, that if Great Britain, because of our failure to make this loan, would withdraw from Bretton Woods, that in all probabilities Bretton Woods would fail?

Mr. Eccles. Absolutely.

Senator Murdock. Mr. Clayton, as I recall his testimony yesterday, took that same position.

Mr. Eccles. As a practical matter, although you might keep it going for a while, there is little basis for it to operate, if you throw the British Empire and the sterling bloc into one group that cannot participate or be a party to the Bretton Woods set-up. You have countries such as Denmark and Norway, Holland and Belgium, and many countries to whom the Bretton Woods arrangement, particularly the stabilization arrangement, would cease to be of much value without Britain in the picture, because

their natural market for their goods is Britain, and their purchase of a good many supplies comes from Britain.

Senator Fulbright. That is nothing new. I understood that to be the situation in the discussion of Bretton Woods and certainly from Mr. Williams and Mr. Sproul--I mean this is not some new thing that is sprung on us, the idea of a loan or even a grant. I believe Mr. Williams was in favor of that.

Mr. Eccles. That is right.

Senator Barkley. Let me say Mr. Williams is scheduled to be here as a witness before this committee and he will express his own views about this loan. I understand he is just as strong for it now as he was when he was advocating that it ought to be done first.

Mr. Eccles. I am sure of that.

Senator Millikin. I suggest there is no inconsistency if that should develop because Williams' testimony was that Bretton Woods would not work without a loan, so that it would be logical for him to conclude that it would work with a loan. However, at the time, we were told that a loan was not necessary if Bretton Woods went through, as Senator Taft says.

Senator Taft. I would not agree that we were told--we might have been told by somebody, but it was not the general consensus of opinion, as I understood it--

Senator Millikin. We have heard now that we were all to sit around and devise rules for the game, design the playing cards and lay out everything for this game. Now it appears that we have to furnish the chips and back everybody that plays the game.

Mr. Eccles. I think that is correct.

Senator Millikin. I agree with you it is entirely correct.

Mr. Eccles. We have been doing that during the war. We have been furnishing the chips for the game of war. I see no reason why we should hesitate to furnish some chips for the game of peace. I don't see anything so terrible about that. It was in our own interest to furnish the chips for the game of war, and now it is in our interest to furnish some of the chips for the game of peace, what is there so different about that?

Senator Taft. The two are absolutely different.

Mr. Eccles. The two are different but they are in our interest.

Senator Taft. It was in our interest to have a deficit of \$50,000,000,000 too in order to win the war.

Mr. Eccles. Well, I don't agree that it was in our interest to have a deficit of \$50,000,000,000. I think we could have had a much smaller deficit. I agree with you that we don't need a deficit now. It doesn't happen to be in our interest to have a deficit now. During the war it was in our interest to have some deficit. Of course, we couldn't avoid some deficit.

Senator Taft. I am only pointing out that your argument that what is done in war is not a sound argument for what is done in peace. I think that because we financed the war and therefore we should finance the peace is an unsound argument.

Mr. Eccles. That is your opinion, but it is not mine.

Senator Taft. Well, you just admitted--

Mr. Eccles. No; I haven't admitted it.

Senator Millikin. Mr. Chairman, may I pursue this question of mine?

Senator Barkley. Yes. I wish you would speak in language I can understand. I don't understand this chip business you are talking about.

Senator Capehart. We will be very glad to teach you.

Senator Millikin. Mr. Chairman, I shall explain that to you at a session when we have more leisure.

Senator Murdock. May we all be in on that session?

Senator Capehart. We will give you a lesson.

Senator Barkley. I am afraid it would be an expensive lesson for me.

Go ahead, Senator.

Senator Millikin. Pursuing the thought suggested by Senator Taft,

you are an old-time banker and out in our country you have the reputation of being a superb one.

Mr. Eccles. Thank you.

Senator Millikin. I would like to have you tell us the theory on which an embezzler usually increases his thefts.

Mr. Eccles. Well, I don't quite get the point.

Senator Murdock. Maybe that is a new game, too.

Mr. Eccles. It is too subtle for me.

Senator Millikin. Then I will remind the Governor that the embezzler usually increases his theft on the theory that one more play at the races or with the chips will put him in a position to restore what he has stolen. Then he goes on and on and finally he says, "They can only put me in jail once and I might just as well steal another \$50,000."

Now, isn't that the philosophy that is at the bottom of this business? That because it costs so much every day to fight the war, what does another four or five billion dollars amount to.

Mr. Eccles. That is not my philosophy at all. It is anything but that. I think this is a question of values. It is not my idea that the Government should either loan or should spend one dollar, certainly at this stage of inflationary development, that is not fully compensated for with other considerations.

Senator Millikin. I knew when I brought that down to banking terms you were not going much further with it. Do you think a blood injection of 2 percent of Britain's annual expenditures abroad will produce these miraculous results?

Mr. Eccles. This is not a 2 percent blood transfusion. What I said was that the annual payments over the life of the loan is equal to 2 percent of Britain's annual expenditures abroad.

Senator Millikin. What is Britain's normal annual income?

Mr. Eccles. As I understand it, normally it is about £8,000,000,000, figuring the pound at \$4, that would be \$32,000,000,000.

Senator Millikin. Do you mean her income from all sources?

Mr. Eccles. What is known as her national income, the same as we figure our national income, on the same basis. It is interest, dividends, rents, salaries, services, and so forth.

Senator Millikin. We will be paying her in installments, I assume, about a billion a year on this. Do you think that will make a strong enough bridge so that she can meet her needs?

Mr. Eccles. Well, I think it is worth taking the risk. I am not as optimistic about the future of the world and society as some people are. I think that we have got the gravest kind of problems, and in thinking of this loan, in thinking of the Bretton Woods arrangement, I can find plenty of arguments and objections to both of them, but it is a question of alternatives. I can also find more objections to some alternative proposal. We do not have an easy choice here at all. You are confronted with the most difficult decision and it is a question of what are the alternatives here. I must admit that the choices are not pleasant ones and I have come to the conclusion, recognizing the objectives and the difficulties involved, that if we don't do it, where do we go? What is the alternative? Then I finally come around, after talking myself out of some of these things, to accepting them as alternatives in preference to what I see if we don't do it. It is worth taking a risk for.

Senator Millikin. You don't propose this, in other words, as a complete solution?

Mr. Eccles. Oh, no; I certainly don't.

Senator Millikin. It might require a further loan from us, or several further loans; isn't that correct?

Mr. Eccles. No; I don't say that.

Senator Millikin. Well, if this one is extended, Governor, and it doesn't produce the result, we have the same problem exactly as we have got today. What are we going to do about that?

Mr. Eccles. I think if this loan is extended and other credits which the British are getting in this picture, and Britain still cannot show recuperative powers enough to help herself, then it seems to me there is a question where you have got to stop.

Now, as a lawyer, you know something about finance, that there is a point when you feel that further help or credit is not going to be justified, because an institution or an individual lacks the ability to help itself, lacks recuperative powers. If it seems, within the kind of world we are confronted with, that Britain cannot help herself, we cannot go on perpetually giving Britain credit. I would oppose it, but I agree we ought to give her this blood transfusion. It does not always follow that even with a blood transfusion that the patient will recover, but that doesn't mean if you have a reasonable measure of hope that he will recover that you should not give him a transfusion.

Senator Millikin. Could you call it the hair of the dog that bit you?

Mr. Eccles. Would you what?

Senator Millikin. I am getting off into language that the chairman would not understand.

Senator Barkley. Well, I don't think the application is appropriate there.

Senator Bulbright. Well, there may be other things that would come in here and prevent this being a solution. If we were to turn around and double our tariff and they couldn't pay it, that would defeat it, too.

Senator Millikin. I was just coming to that, Senator. You, Governor, have estimated the risks of this thing undoubtedly. You have taken into consideration that Britain must radically increase her exports if she is to pay. Do you feel reasonably confident she is going to be able to do that?

Mr. Eccles. Well, I think so. I think that a country that has shown the strength that Britain has shown during this war period has something, and it is something worth saving. A country that will stand when other countries, often more strong, go down; a country that will stand as Britain stood and a country that has been willing to impose upon herself a rigid program, an austere program, for years after the war, that her people have been willing to accept, and a country that has stabilized her exchange, a country that is carrying on her rationing with success and fairness, a country that has imposed taxes and has done a much better job of war financing than we have done, a country where black markets and tax evasion are almost unheard of, shows a capacity for government that is rare in this world.

Senator Millikin. It shows basic character.

Mr. Eccles. It does. It shows a capacity that we should recognize, and we should be willing to help. We need that kind of people in this world. I think that the British performance as compared with the performance of the continental countries and other countries throughout the world is magnificent. When you take into account the problem that she had and the stress she was under, this country can do nothing less, in my opinion, than to give this financial help in this way.

Senator Taft. Governor Eccles, may I ask just one thing? This estimate is based on imports of \$5,200,000,000 into Britain in postwar years. Have you studied the question as to whether that requires any austerity or whether it takes care of a high standard of living in food, clothing, and everything else?

Mr. Eccles. Yes.

Senator Taft. Has that been studied? It seems to me as far as I can see you have accepted the figures handed to us by the British in their white paper as to their need. Now, has a study been made of whether this \$5,200,000,000 of imports that we have to finance now, in effect from all over the world, is necessary; whether that does require this austerity you are talking about?

Mr. Eccles. Our staff people and those of the other organizations concerned feel that it does require an austerity because these imports to Britain are not consumer goods. There no doubt will be a much heavier part of the imports than normally would need be of capital goods, but it is not--

Senator Taft. It is more than half consumption goods, that is certain--their exports after they have been processed do not amount to over about \$4,000,000,000.

Mr. Eccles. I think perhaps for the next year \$3,000,000,000.

Senator Taft. Yes, but they want to put it up, we will say to \$4,000,000,000, against this five billion two. So that next year with 3 billion exports after they are processed, the raw materials certainly won't be over a billion and a half. So most of this five billion two is for consumption, necessarily. I just wondered whether you had checked it. That is all I am asking.

Mr. Eccles. We are told by the British that they are maintaining their wartime controls for several years after the war. We were told that they contemplated an austerity in their standard of living equal to their war years.

Senator Taft. You were so told, but I am asking you if you checked

it. Incidentally, I wouldn't object at all to their putting their imports on the basis of a reasonable standard of living. But I don't like to have them do it and then have them come in here and use this austerity as an argument for the loan that way. I don't mean they did. They did not, as a matter of fact, but you have suggested it.

Mr. Eccles. We took this position: They wanted more money, but we felt that in view of our own budget situation and in view of our own inflationary pressures and demands and short supply, and that of the whole world, that they should get along with less; and that in itself we said would impose an austerity of living. We felt that our people, possibly, would feel better about making the loan if they felt that everybody was economizing in their consumption to the very maximum. Not only that, but the British themselves know it is in their own interest in order to build up their export trade as soon as possible, to consume the minimum at home.

Senator Taft. At the present time they undoubtedly are assuming a very severe austerity, but I was wondering whether it was fair to assume that they intended to continue that, because that is a very difficult thing for any government to continue.

Mr. Eccles. I think they intended to continue it just as long as they can get an acceptance of it. Of course, there is a certain point with people where it might be unwise, but in the world as it is today I think they recognize the need of it. The people as a whole are just as anxious, I think, as the Government to forego consumption in order to get some independence again; they don't like to be in this position. They would like to reestablish their trade in the world in their own interest. We were impressed time and again in our conferences with them with that, and I am sure that they are doing it. I can recognize that some of those imports do not go into consumption, because they are in process. These raw materials take months and months after they go in before they are manufactured and finally get into the wholesale and retail channels, until the pipe line, in other words, gets full. So you cannot judge the import figures as a very accurate estimate of consumption in the first year.

Senator Taft. Mr. Eccles, you said that the British need our help. One of the instances cited was that they had stopped their export trade and they had sacrificed that for the war. The United States also stopped their export trade and sacrificed that during the war, didn't they, as far as normal commercial exports are concerned?

Mr. Eccles. I think so, but of course with us it is a very small part of our total need.

Senator Taft. I understand that.

Mr. Eccles. Of course, we didn't have the shipping, we didn't have the goods. We just quit it and so did the British.

Senator Taft. I mean something had to be done if the war was going to be won.

Mr. Eccles. It was a question of her self-interest and our self-interest. I am not saying she did it to help us.

Senator Taft. You said also they had lost their liquid assets. It was testified yesterday they had \$2,300,000,000 in dollars and gold, liquid assets, besides \$900,000,000 of securities that are pledged to the RFC. So that is over \$3,000,000,000 in liquid assets. Is that so much less than they had before the war?

Mr. Eccles. A good deal. When we had the period of "cash and carry," if you will recall, when Britain was standing alone and we insisted that everything that went out had to be paid for in cash, the British pretty largely ran out of resources during that period and sold their securities in this market, and used such gold and dollar balances as they had. I am told they got down to as low a balance, before lend-lease started, as \$12,000,000.

Senator Taft. Their figures show on the 1st of December 1940 they were down to dollar and gold resources of \$300,000,000, but through the effect of lend-lease they increased that now by \$2,000,000,000.

Mr. Eccles. Yes.

Senator Taft. So that their present position of liquid assets is certainly not a serious position.

Mr. Eccles. Well, you gave the figure of \$3,000,000,000, including liquid assets. I had understood that their gold and dollar balances now were down to two or slightly below. Mr. Knapp says you have to deduct from that the current liabilities against those assets.

Senator Taft. Well, why should we lend them money to pay their debt? Why shouldn't they pay their debts to us as much as to anybody else?

Mr. Eccles. Well, it is a current transaction.

Senator Taft. No; it is not. It is a debt to Portugal and has been for 3 or 4 years, most of it. We were told that the two billion liquid assets, some \$400,000,000 which was practically all gold, was a liability to Portugal.

Mr. Eccles. If Portugal has got the gold, I don't know what you are going to do about it.

Senator Taft. They haven't got the gold. That is the point. They want it back. But there is no reason why we should give the money to England to pay it back to Portugal; is there?

Mr. Eccles. I would agree with that. I see no reason why Portugal should be treated differently from others.

Senator Taft. That raises the chief question I am concerned about. I still don't quite see why we should finance the whole British deficiency in exports when as a matter of fact as between ourselves a billion dollars would cover any deficiency to us for the next 3 years. The rest of the deficiency is to the Empire countries, and other parts throughout the world.

Why should not they join us in financing their deficiency in exports-- I noticed yesterday in that connection the Canadian Government said they would grant \$1,250,000,000, and I noticed a gentleman in the British Parliament said:

"Can't we avoid all this thing in England by getting our Dominions to make these advances that may be necessary to finance these exports?"

So this is not original with me.

Mr. Eccles. There is the Beaverbrook group--what is known as the British imperialist group, that do not want to get this loan. What they would like to do is to put Britain into a pound sterling bloc and develop the pound sterling bloc. I think they are looking, as some of our people are, back to the good old days. What they would like to do is to put a very tight ring around the British Empire and some of the British sterling area countries. I think that is exactly what they would like to do and they don't like Bretton Woods. They don't want any part of it.

Senator Taft. Neither did I.

Mr. Eccles. I am saying that there are a lot of these people looking back to the good old days. They want to go back to the good old days that no longer exist.

Senator Taft. Well, Mr. Eccles, I would say that you are trying to go back to the old multilateral world that will never exist again. I don't think you will ever get there. I think it is a dream, as far as that is concerned.

Mr. Eccles. Maybe you won't. I recognize the problems.

Senator Taft. I mean the world that existed was this multilateral trading world. It was not a preferential world. We were not shut out of India or these countries before.

Mr. Eccles. I am thinking of the immediate prewar period when Britain developed what was known as the Empire preference arrangement and they were tightening and tightening it, more on the basis of cartels and individual trading agreements.

Now, I recognize the difficulties of a multitrading world fully. There was a time when the gold standard was being operated by the Bank of England. It was really the sterling standard, but we followed it as the gold standard. But gold was able to function as it was managed by the British. You had a multilateral world because Britain managed it for the world and when she accumulated surpluses in any way she would loan them. She kept right on in the process of loaning throughout the world in order to keep the system going. Some people think that we, as a creditor Nation, should follow the same process. I don't think we should. I don't think that solves anything.

Senator Taft. There is nothing in this agreement that requires England to give up Empire preference at all, not a word in it, is there?

Mr. Eccles. That is correct. But there is this agreement that there is to be a trade conference, and all the conditions of the trade conference are outlined.

Senator Taft. There is to be a trade conference in which the question of reducing Empire preferences is to be discussed.

Mr. Eccles. That is right.

Senator Taft. And in which we are going to discuss lowering our tariffs. But there aren't any assurances. That is no condition of this loan.

Mr. Eccles. Well, there are so many questions involved that you cannot very well make it a condition of the loan, and it is merely that Britain must know, as we know, that you do not develop an economic basis of a multilateral world unless you get together on some basis, and that is the risk we must take.

Senator Taft. We have an economic bloc with Cuba, don't we?

Mr. Eccles. Oh, yes.

Senator Taft. Because of our special preferences, special tariff preferences to Cuba?

Mr. Eccles. We have several, I suppose.

Senator Taft. We are not proposing to give that up, are we?

Mr. Eccles. I do not know. We have several economic arrangements, and we are likely to have a lot more if this does not go; but there is this alternative of trying to get back to a multilateral world, and I see the difficulties, as you do,

Senator Taft. Of course, as far as the Russian end of the world is

concerned, it is perfectly hopeless.

Mr. Eccles. I think you are mistaken, and I think it is the crux of the problem: either we make an effort and try to get back to a multi-lateral world, which of course is the basis of democratic capitalism, or failing to do that the alternative is state trading. As state trading develops, capitalism, and democracy gradually go out the window.

Senator Taft. I suggest it is going to be a mixture of both.

Mr. Eccles. So you have the alternatives of trying to do this or going the Russian way and having trade based largely on the basis of direct state trading and barter, and that develops totalitarianism within governments.

Senator Taft. I suggest it is going to be a mixture of both whether you put this through or not.

Mr. Eccles. I think it will be some mixture; there is no question about it.

Senator Taft. Just black and white.

Mr. Eccles. That is right. But it may not be a mixture of both; it may be practically all of one pretty quickly if you do not get the loan. I think by putting the loan in you can get the mixture. Without a loan I think it may be almost entirely a state trading arrangement.

Senator Taft. But you keep your Empire preference. You go back to the old world, just what you are protesting against. They didn't have what you would have; in the old world. They had Empire preference, and by that means they kept the British trade in British hands, and they are going to do it after this just as much as before.

Mr. Eccles. If they do, then of course we fail in our proposal to establish an economic basis of multilateral trading through what we call our exchange stabilization arrangement.

Senator Taft. We haven't asked them even to give up Empire preference in this agreement.

Mr. Eccles. Well, we did ask it.

Senator Taft. No.

Mr. Eccles. It is a good deal like legislative history. In the development of this loan there is a lot of legislative history; I mean, an awful lot of discussion that tended to enable us to come to conclusions, and the British certainly indicated an intention of modifying trade practices all over the world, and they recognize that without it you get the

economic bloc, and with that you get the political, and with the political you would get frictions and a war.

Senator Barkley. Well, there are dominion preferences. They are a defensive device which was found necessary in order for England to compete with all the other countries in the world by having some preference in the dominions for the outlet of her industrial production.

Mr. Eccles. I think that is true with all these arrangements. That is always true.

Senator Barkley. Off the record.

(There was colloquy off the record.)

(Thereupon Senator Murdock assumed the chair.)

Senator Fulbright. Mr. Chairman, I have some questions I would like to ask Mr. Eccles. Can't he come back this afternoon?

Senator Capehart. Mr. Governor, may I ask a couple of questions?

Senator Murdock (presiding). The Chair recognizes the Senator from Indiana.

Senator Capehart. I believe you made the statement that at the time we were discussing Bretton Woods it would have been ridiculous to have loaned England \$3,000,000,000; is that correct?

Mr. Eccles. No; that was not correct. I didn't testify on Bretton Woods.

Senator Barkley. I would suggest to the committee that if you do not finish with Mr. Eccles by the time to recess, in view of the schedule of witnesses, we might have a session at 2:30 and finish with him, if the members still want to ask him questions.

Senator Capehart. Well, didn't you make the statement a moment ago that it would have been ridiculous to have loaned Britain \$3,000,000,000?

Mr. Eccles. I don't think so.

Senator Fulbright. You mean without Bretton Woods either?

Mr. Eccles. Yes; before.

Senator Capehart. In other words, your statement was that it would have been ridiculous to have loaned them \$3,000,000,000 without Bretton Woods.

Mr. Eccles. Yes. Well, I don't know. You have got to take that whole discussion; you cannot take a part of it from the context.

Senator Capehart. Well, did you feel that when we passed Bretton Woods it would be necessary to loan Britain money?

Mr. Eccles. Yes, I felt even before Bretton Woods was passed, that when the war was over some amount would have to be loaned to Britain in order to put Britain on a cash basis so as to make Bretton Woods effective and--

Senator Capehart. One other question: Is it your opinion that we will be called upon to loan other countries money?

Mr. Eccles. We have been called upon to loan other countries money. The Export-Import Bank, in the report that was very recently submitted to the Congress, gave a complete, I think, outline of that. The National Advisory Council report covered the whole field of other foreign lending.

Senator Capehart. This very possibility that we may be called upon to loan Russia and France and, we will say, as many as a dozen countries?

Mr. Eccles. I don't recall. There are at least a dozen, I would say, in the report. Congress appropriated and increased the lending power of the Export-Import Bank by \$3,000,000,000, and the NAC, in presenting that report to Congress, requested an additional amount of a billion and a quarter that may be necessary to carry through to the end of the fiscal year 1947, giving a total of \$4,750,000,000. Three billion or three billion and a half of that amount was already given to the Export-Import Bank last year.

Now, there are some loans that have already been made out of that money. There are others that have been committed. There are others in the process of negotiation. There are no grandiose schemes at all. They are small amounts compared with what these countries feel they need. I think that the British loan is in comparatively a different category from that of any other country, because the loan to another country would be a loan not to enable that country to put its exchange upon a convertible basis, but largely to buy directly specific goods within this country. The British loan is not set up against the goods that the British need. The British loan is set up for the purpose of providing convertibility of sterling, so that Britain in the future can go on what we may term a cash basis, so that she can buy from any country in the world and they will accept sterling because sterling would be exchangeable into any other currency in the world. Now, therefore, that loan is a different type of loan, and it will help not Britain alone, but it helps all of the countries that are--

Senator Capehart. In the silver bloc?

Mr. Eccles. In the sterling area.

Senator Capehart. Sterling area.

Mr. Eccles. It helps all of them that are in the area, and therefore it is in a very different category from any other loan.

Senator Capehart. There are only two known ways to increase business, and one is by finding new customers, and the other is by selling more to your present customers. And that applies, I think, to an individual or a manufacturer as well as it does to a nation. Now, what isn't quite clear in my mind is this: The world has so many dollars. The peoples of the world have so many dollars to spend each year for merchandise and services. The world is going to compete for those dollars. Now, what I cannot quite understand is how, if the world is limited, which it is, to an amount of dollars that it can spend each year, how you are going to set up a system whereby you will have free interchange of merchandise and goods unless you do it by some sort of a barter or some sort of a state arrangement. I do not see how you can do it worldwide any more than you can do it nationally.

Mr. Eccles. You can do it nationally. There isn't just a fixed amount of dollars or any other currency. That is where your premise is entirely wrong.

Senator Capehart. You mean to say that the peoples of the world do not have a set amount that they can spend each year?

Mr. Eccles. That is exactly what I mean; people are able to consume what they produce. The money aspect of it is purely a mechanism that certainly ought to be---

Senator Capehart. I was never able to buy something unless I had the money.

Mr. Eccles. That is right. But how do you think we financed the war?

Senator Capehart. You financed it by issuing bonds.

Mr. Eccles. Well, all right. The people financed by borrowing from individuals and corporations. The limitation of purchasing power and the standard of living certainly isn't limited to some fixed amount of dollars or fixed amount of currency. That wasn't even true under the gold standard, even though the gold standard was an unreasonable limitation, and there is no limitation today upon what people can spend except the goods that are produced. There should be no limitation except one that is based upon the productivity of a country; and if we let our money system create unemployment and idle factories, then we are just perfectly stupid and democracy has got no business to survive.

Senator Capehart. In other words, you mean that we should go in debt to produce?

Mr. Eccles. Well, we have got a debtor-creditor system. If one group is saving, unless the other borrows savings are idle and therefore useless. That money you have received is no good unless somebody goes in debt, whether it is the Government or some corporation or individual. It is basic.

Senator Murdock. Aren't we getting rather a little afield in the general discussion?

Mr. Eccles. Well, that is right.

Senator Capehart. I don't think so at all.

Mr. Eccles. We are getting into something else.

Senator Murdock. I am just asking your opinion.

Senator Capehart. No. I am looking for information, because I am as vitally interested and as sincerely interested as anyone else.

Senator Murdock. I do not want to interrupt you at all if you feel that way.

Senator Capehart. And what I still maintain is that every nation in the world is competing for all the dollars or the currencies in the world that are available in a given period of time.

Mr. Eccles. Each nation is--

Senator Capehart. Every manufacturer in the United States is competing for the dollar that is in the pockets of the people. Now, I cannot quite understand how you are going to work this multilateral system that you are talking about without raising the standards of living of the peoples of the world.

Mr. Eccles. Well, that is the way--

Senator Capehart. Another question I have: Do we have any promise from England that she is going to do anything toward raising the standards of living, the consumptive ability, or the capacity of the peoples of India and other countries that she has control over?

Mr. Eccles. Well, of course, so far as India and other countries are concerned, this loan would be very helpful because India is the biggest creditor of the British today; and, looking to the future unless Britain can pay India for her future purchases from India in sterling that is convertible into dollars, then India still will be doing just what she did during the war: piling up what we call frozen sterling balances. Now, England can't--

Senator Taft. Instead of contributing them as we did our balances in lend-lease for nothing.

Mr. Eccles. Well, India I think is going to have to make some contribution in this picture. So far as these frozen balances which reached \$12,000,000,000 are concerned, certainly she does not intend to use this money to pay them.

Senator Taft. She can't. She binds herself not to use it to pay this obligation.

Mr. Eccles. She would defeat her own purpose. It is to her interest to drive as hard a bargain as possible in the settlement of these balances. And of course India is an extremely poor country, as we know, and with such a vast population in relation to her resources she is a country that cannot very well help other countries. The British Empire has little resources to help England, with the exception of Canada, maybe South Africa, to a limited extent. But you must recognize that the Empire countries as a whole have exhausted themselves during the war effort, most of them, and that is the difficulty.

Senator Capehart. Well, what I am fearful of is our tremendous productive capacity in this Nation. We certainly can consume what we make for the next few years, but after that I am fearful that we are going to have no customers that have money to buy so much.

Mr. Eccles. Customers?

Senator Capehart. And I am just wondering if we can work out a system or a plan here whereby you can divide up the world's needs and wants in such a way that we are going to get our just share of it, and England her just share of it, and other countries their just share of it. Now, if you leave it on a competitive basis, somebody is going to suffer in this world trade, just as in our own country here today many manufacturers go bankrupt, many men in business go bankrupt, because they are unable to secure sufficient volume or do sufficient business to make a profit.

Now, how are you going to arrange this so every country of the world is going to be assured of sufficient imports and exports to be successful?

Mr. Eccles. Well--

Senator Capehart. I know it is a hard question to answer, and I don't know that there is any answer to it. Certainly, looking at the problem, I think, from a practical standpoint, rather than an ideology.

Mr. Eccles. I would say that your concern about our having a surplus some years in the future is possibly a real one; that we will have a surplus for export because we won't know how to increase the standard of living at home fast enough to consume it. We wouldn't necessarily

need to have on balance any surplus if we could devise a system whereby we could increase the standard of living as fast as we increased our productivity, but we have great difficulty doing that.

We don't want to develop exports--or at least I don't want to develop exports--just for the sake of exporting what otherwise would be unemployment, and export irreplaceable raw materials and other things. Certainly we will have no trouble exporting an amount equal to the dollars the rest of the world get from us as a result of the imports and gold that we take. And to try to get exports based upon any other way, in the long run gets you into trouble. Simply to provide foreign credits as a continuing process for the purpose of stimulating exports solves nothing.

Senator Capehart. Isn't that what we are doing in this loan?

Mr. Eccles. No, no.

Senator Capehart. Aren't we giving England?

Mr. Eccles. We don't want to make exports, no. This loan is entirely for another reason. I would say it would be very much better if we could make this loan in 3 or 4 years from now, when we will be more likely looking for a market for surplus.

Senator Taft. This loan is to build the British exports, not American exports.

Mr. Eccles. That is right. This loan we make is a real sacrifice today. A few years from now it would not be, but today to make this loan is a real sacrifice, because the food and other goods that we let the British have or we let other countries have, as a result of the dollars that Britain will spend there, are going to have a certain inflationary pressure in an economy where our supply is short, as it is today. It is going to call for some sacrifice on our part. So that it is entirely different from making foreign loans for the sake of lending when you have surplus savings that you cannot use. That is a very different financial problem.

Senator Taft. Mr. Eccles, may I read a quotation?

Senator Murdock. Just a minute. The Chair must insist that there be a little order in our interrogations. Have you finished, Senator Capehart?

Senator Capehart. Well, I think so.

Senator Murdock. I want to be respectful to all, but I think we must all have the same opportunity.

Senator Capehart. I am still concerned about the problem we have been discussing. I am fearful that what we are doing here possibly will do some good for a matter of a year or two, or three years, but I question very much if we are solving any long-term problems in connection with it.

I would like to ask this question--

Senator Murdock. I think discussions among Senators should be reserved for executive session.

Senator Capehart. Yes.

Senator Murdock. And that our questions today should be propounded directly to the witness, and he should be allowed to answer, and then as soon as one Senator is through he should be passed to another Senator. That is the way we will try to operate it, at least while I am in the chair.

Senator Capehart. I am wondering if our Government or if you have given any thought, or if any thought was given in the discussion of this loan, to setting up a better system of government in respect of many countries, particularly those countries that England controls, where their consumption and desires and wants and money to buy could be brought up.

For example, I am thinking of this: I am thinking of India. There is India with millions and millions of people. I am thinking of Palestine. I am thinking of other countries. Now, they simply cannot buy today because they have no money to buy with.

Mr. Eccles. They have money. Palestine is one of the biggest creditors of the British.

Senator Capehart. You mean to tell me that the Arabs and the people of Palestine and the people of India--I am talking about the millions that are on the streets--have money?

Mr. Eccles. Well, what I mean is that--

Senator Capehart. You mean the government has money, but the people have none.

Mr. Eccles. Well, that is up to a government. We cannot take into account the clearing of the Indian slums; you only can operate internationally through governments and instrumentalities of governments, and the Bretton Woods set-up was for that very purpose. India is a member of the stabilization arrangement; India is a subscriber to the International Bank. It is only through that mechanism that you can function internationally in matters of this sort, matters of relationship of the exchanges, and matters of tariffs, and matters of preferential arrangements. The Bretton Woods arrangement was set up for the purpose of creating an economic basis of stability between the currencies, to try to work out as nearly

as possible a freer flow of goods and services. Now, the trade agreement, as it is called, with the British was also an arrangement designed toward this same purpose that I think your question is directed to, Senator. We certainly are interested, as a country, in helping the people of every government, and to the extent that you help the government I think you help the people.

Senator Capehart. I agree with that, but we are the greatest market in the world here through virtue of our type of government. We have more consumptive ability in this country, and capacity, and our people have a high standard of living; they have the ability to buy things, and we do a tremendous volume, and our production is greater, and in all the European countries and the countries in Asia they have no capacity for buying because they have no money.

Mr. Eccles. Because they have no capacity for production. Their capacity for consumption is relative to their capacity for production.

Senator Capehart. That is like the question of which is the most important, the hen or the egg. I mean which are you going to put first?

Mr. Eccles. You have to have the product before you can consume it.

Senator Capehart. Well, but nobody is going out and put in a factory if there are no customers, and you can't--

Mr. Eccles. There are plenty of customers.

Senator Capehart. Yes, but they have no money.

Mr. Eccles. Yes; but that is up to the state to create the money.

Senator Capehart. Well, possibly so.

Mr. Eccles. The states always have.

Senator Capehart. I think you get what I am thinking about. I would like to find some way to solve it. I am concerned about what is going to happen in a few years with our tremendous production, particularly if we set up a system all over the world where every other nation is going to compete with our manufacturers and our exporters; some of these days we will find, in my opinion, that we are on the short end of the horn.

Senator Murdock (presiding). Senator Fulbright, have you some questions?

Senator Fulbright. There were two or three points I wanted to get for the record. Some mention was made of the Canadian loan of \$1,250,000,000. How does that compare, either per capita or on income, to ours in proportion?

Mr. Eccles. Very, very much larger.

Senator Fulbright. About what? Can you estimate?

Mr. Eccles. Well, I think their income is about a twelfth or a thirteenth, so that to be comparable you would have to multiply that by at least, to be conservative, say 10 times.

Senator Fulbright. Surely.

Mr. Eccles. To be comparable with ours. So Canada in that case, if you take 10—and I think 12 is much nearer the figure, but take 10—and you would have 12½ billion dollars of assistance as compared to \$3,750,000,000.

Senator Fulbright. Is Canada a member of the sterling bloc?

Mr. Eccles. No.

Senator Fulbright. Would you say that her reasons for making that relatively 10 times greater loan are, to her, that she feels that she herself is benefited by it and that it is necessary for her to have it?

Mr. Eccles. I think so. I think she is motivated a great deal by the same general reasons that we are. I think that she certainly wants to see the kind of a world we want to see, and she thinks that Britain and the sterling area bloc need to be helped. I think that she is motivated a great deal by the same reasons. I have talked to some of the Canadians, and I think their line of thinking is a good deal along the same line as ours.

Senator Fulbright. Yes. You mentioned a moment ago that during this period it will be inflationary, but that we have a system of export control that will operate on the particular exports. How would that operate? Could you give us just a short example?

Mr. Eccles. Well, as I understand it, the Commerce Department, in conjunction with the Civilian Production Administration and the OPA, has a committee that determines what can or should be released for export, and then the Commerce Department can issue a permit. For instance, everybody knows that building materials of all kinds today, trucks, automobiles, any number of items, are in very, very short supply, and there are a great many dollars held by countries outside. The Latin-American countries have large dollar balances here, and earmarked gold. The Dutch and the French and the Belgians all have some dollars and gold that they had when the war started.

Senator Fulbright. But what I mean--

Mr. Eccles. And the British had the same. Now, if you did not require an export license, they would be spending that money in the market bidding against American demands, and therefore we say to them because there is a short supply we want to control the inflationary pressure.

Senator Fulbright. I understand the reason for it. What I meant, does this Department have the power, the authority of law, to do this during peacetime?

Mr. Eccles. Yes.

Senator Fulbright. I know it is obvious why we want it.

Mr. Eccles. Oh, yes; they have authority.

Senator Murdock. In addition it is now being done by OPA and CPA.

Mr. Eccles. It is interdepartmental, and where it is food that enters the picture I understand the Department of Agriculture has authority.

Senator Taft. The special acts for it would have to be renewed sometime.

Senator Fulbright. That is what I was getting at. We do have the assurance of a control during this period?

Mr. Eccles. That is right.

Senator Fulbright. That is the point I wanted to make.

Senator Capehart. Mr. Chairman, may I ask a question here?

Senator Murdock. I would like to have the answer to Senator Fulbright's question, and I think if we all respect each other in the hearing, to some degree at least, why, we will expedite the hearing.

Mr. Eccles. I understand it is covered under the War Powers Acts along with other war powers.

Senator Taft. It is a special act, I think.

Mr. Eccles. Well, maybe it is. I would suggest that Secretary Wallace indicated he would be up here, and inasmuch as this comes in his Department he could possibly give you more about it than I can.

Senator Fulbright. Well, in any case, even though that should expire, we will say, at the end of this year, or at any time before the period of this loan, it probably should be renewed.

Mr. Eccles. Whether you make the British loan, or not, that authority by all means should be renewed.

Senator Fulbright. Well, that is the point.

Mr. Eccles. It would be a grave mistake not to do it, with the amount of dollars and gold held by foreigners.

Senator Fulbright. There is another question that has been raised. Do you think it would be practical to provide in these agreements any provisions relating to the form of payment to us in basic raw materials? It has been suggested that should be in it. Should it or should it not, or was that matter discussed?

Mr. Eccles. Well, I would think that there should be no such conditions in the loan itself, certainly. As a practical matter, if our foreign credits that we make are going to be serviced, we cannot continue to have a favorable balance of payments--what we term a favorable balance of trade--indefinitely. The way payments are made on foreign obligations, of course, is out of goods or services, and it would seem logical that the goods most desirable for us to take would be the irreplaceable raw materials, because, after all, to take goods that would tend to stop the employment and production of domestic goods would not be adding to our wealth; but to take irreplaceable raw materials would be adding to our wealth certainly if we are going to ship abroad our manufactured goods, which are made up largely of our raw materials, we should certainly replace some of that by getting some of the foreign raw materials.

Senator Fulbright. But even--

Mr. Eccles. Now, whether we stock pile it or how we get it, I think is something to be worked out.

Senator Fulbright. Well, a bill, I believe, providing for \$4,000,000,000 for a stock-piling purpose passed the Senate, didn't it, and is over in the House? I am sure, whether it passed, there was such a bill here.

Senator Murdock. Yes.

Senator Fulbright. Now, even if such a provision should very probably say that we will be paid in such materials now, that would come through these countries in the sterling bloc.

Mr. Eccles. That is right.

Senator Fulbright. Isn't that the way you think it would be paid?

Mr. Eccles. This loan itself is a loan the payments on which start in 5 years, and it is spread over 50 years, and the payments on this loan are around \$120,000,000 a year. That is what it amounts to, plus twenty-some million on the lease-lend settlement. Now, certainly, as we try to reflect on the future, it may well be that we will be very glad to take many of the irreplaceable raw materials that we are exhausting rapidly over that period of time, and the rest of the world will no doubt be very glad to send us some of those materials in order to get dollars to apply on the obligation. Britain does not have the raw materials and cannot

ship them directly, but this is what would happen in a multilateral trade arrangement; we know Canada has certain raw materials, we know Mexico does, we know Chile does, we know many of the South American--

Senator Fulbright. Malaya.

Mr. Eccles. African countries, Malaya; they have raw materials that we need, and the war demonstrated pretty fully that we needed many of them. And if we are going to maintain a national income of \$150,000,000,000, with the growth in population, with an increase in the standard of living, there are many things that we are going to be able to use and need that we haven't needed and used in the past. It is difficult to say to what extent that is going to be, but those other countries will buy many of the manufactured goods from England and--let me put it this way: We will buy many of these raw materials, and these countries will get dollars. These countries will turn around and spend those dollars in the markets of the world, buying certain things from the British, certain things from the Dutch, and other countries. Those countries in turn would get dollars and turn right around and buy things here again.

So that whatever dollars we spend on imports, you can be perfectly sure are going to come back to us to buy our exports.

And there is one other item that is very important, it seems to me, and that is foreign travel. I am one of those persons who, instead of saying that we must have a large export or foreign trade business to have domestic prosperity, would sooner say that we need a high degree of domestic prosperity to have foreign trade; I think that the domestic prosperity emphasis should be first. Unless we manage our own internal economy well, then the foreign trade end isn't big enough. It isn't as though it were 50 percent of our national income. If we have a high domestic employment and high income, there will be lots of foreign travel, there will be a great many goods that we will buy, luxury goods of all kinds that we otherwise would not buy, and that will make for a healthy foreign trade.

Senator Fulbright. What I would conclude from that is that you do not feel there is any necessity for a special provision that those must be paid in raw materials.

Mr. Eccles. Oh, I think so.

Senator Fulbright. But that inevitably is the way it will be paid, in the operation.

Mr. Eccles. I think that is it exactly. I agree with that.

Senator Fulbright. You said, I believe, at one point, that it is entirely in our hands to make it possible for this loan to be paid. What did you have in mind when you said that? I think that is what you said in your general statement.

Mr. Eccles. Well, I had in mind this: That it cannot be paid unless those countries can get dollars. Now, we have to help to make it possible for them to get dollars. And if we have a great depression here within our own country, so that our imports drop drastically, and our foreign travel and emigrant remittances drop drastically, then they don't have the same means of getting dollars. On the other hand, if we undertake to stop taking imports of many of these basic raw materials, if we refuse to take them, then we cannot object too seriously to not getting the dollars. In other words, it has got to be paid out of goods and services.

Senator Fulbright. Yes.

Mr. Eccles. And if we won't recognize that fact, then we can bring about a default.

Senator Fulbright. There was one element you didn't touch on. Someone asked, Why do you feel that England should be able to expand her export trade? Don't you think that at least one element in there that might be favorable to both an increase on the part of manufactured articles, and particularly to England, is the relative decrease of Japan and Germany, which were very large suppliers of this world market, during these next few years at least?

Mr. Eccles. Yes, I think that is a very important factor.

Senator Fulbright. Yes.

Mr. Eccles. There is the devastation of production and factories and the disorganization that has gone on throughout the world, even in France with her present chaotic political and currency situation. A country, when it is in a situation where it has great political and currency instability, does not produce normally. Now, England, as I said earlier, has hold of her situation. She has managed her economy, and she is getting back into production rapidly; and certainly, so far as we can see over the next few years, the world is going to need everything. England will have not the slightest problem of finding an export market for everything that she can produce, I would say, over a long period of time.

Senator Taft. May I comment on this German question?

Senator Fulbright. Yes.

Senator Taft. Of course, you miss the German competition, but Germany was one of Great Britain's largest markets.

Mr. Eccles. You will do both.

Senator Taft. Larger than the United States. So that she will lose that market as well as losing the German competition.

Senator Fulbright. It is not an absolute gain. That is quite true. But there must be some net gain.

Mr. Eccles. We know the world needs everything today.

Senator Fulbright. Yes.

Mr. Eccles. And is likely to need it for some little time; and Britain, being a debtor country, can ship goods and can take the payment. We being a creditor country, it is much more difficult--

Senator Fulbright. More difficult to take payment.

Mr. Eccles. For us to take payment. We can only take payment in goods. Britain is not in that position. Britain can take payments in pounds sterling.

Senator Fulbright. There was one further one: you made a remark in your principal speech, I believe, that the interest was not a very important consideration in this. Would you elaborate a little on that? What did you mean by that?

Mr. Eccles. I am thinking of the loan not as a commercial loan. I am thinking that the question of the interest rate is certainly one of the incidental features of the loan; and I recognize that when we talk in terms of a loan, it is always associated with interest; and certainly, to propose a loan without providing some interest would be rather difficult, I imagine, to explain to the public: but the rate of interest, if they pay the interest and the principal, is pretty close to averaging what we will be paying on the public debt; and so from that standpoint it doesn't become a burden on our Government. We always speak of the burden of public debt, and the public is servicing the debt. The interest payment is the burden, and to the extent the Government borrows the money they have got to pay interest on it; and to the extent that we do not collect interest from Britain, why, the burden comes upon the American public. So I mean, then, if we can collect what we are proposing to collect, the burden on the public is very small; and even if we don't collect it, it is still pretty small in our whole national picture.

Senator Fulbright. What I thought you meant was relative to the advantages to this country from getting this trade to moving, that the interest was of very small consequence, that if this worked--

Mr. Eccles. I could add the principal to that. Both the interest and principal are small by comparison.

Senator Fulbright. If it is successful.

Mr. Eccles. That is right.

Senator Fulbright. If it fails, you visualize the alternative is so bad that it likewise will be lost as small in the costs of the next war, I take it, either trade war or physical war.

Mr. Eccles. That is right. The alternatives make it look small.

Senator Murdock. Senator Butler, did you have a question?

Senator Butler. You have pretty well covered my question.

Senator Taft. I have one question when you get through.

Senator Buck. I have one more.

Senator Murdock. Senator Buck.

Senator Buck. I just wanted to ask Mr. Eccles if there is any merit in the suggestion as an anti-inflationary measure that the Treasury be required, in raising this money through the sale of bonds, to sell them to private individuals or to corporations; in other words, keep them out of the banks. The corporations probably would have to buy them.

Mr. Eccles. Well, the Treasury may not have to borrow any money with which to make this loan, in view of the Treasury's cash balances; and if we can get a balanced budget in here, it would be my opinion that the over-all public debt, rather than increase beyond its present figure, should substantially decrease. I think that even though we make this loan our fiscal policy should be such as to bring that about, taking into account our future tax program and the Treasury's balances together.

Senator Buck. I am very happy to hear you say that.

Mr. Eccles. There should be a substantial reduction in the present public debt.

Senator Buck. You think we can include this in the budget and have a still substantial income at the present rate of taxation to pay for it?

Mr. Eccles. I think we should advocate that policy.

Senator Buck. I am glad to hear you say that.

Mr. Eccles. Very definitely. I don't think that this should be a factor in the picture from that standpoint. The inflationary impact that I had in mind was the spending of it for a short supply of goods, that were in short supply.

Senator Buck. It is your opinion that unless some unforeseen emergency arises, then we are through with floating of bond issues?

Mr. Eccles. I would think we are not only through with increased floating bond issues; I would think that the reversal of the action would be--

Senator Buck. Would begin to pay the debt off?

Mr. Eccles. We should begin to make substantial payments.

Senator Buck. That is what I had in mind.

Mr. Eccles. That doesn't mean we do it because we have a favorable-- a budget that leaves us a surplus. It does it because we happen to go into this period with a very large cash balance.

Senator Buck. That isn't quite the same thing, is it?

Mr. Eccles. No, it is very different. This loan, even though it is paid out of the cash balance as it is paid, will still be a charge against the budget.

Senator Buck. But I don't know what this cash balance is.

Mr. Eccles. It is about 25 billion.

Senator Buck. Twenty-five billion?

Mr. Eccles. Yes; 24 $\frac{1}{2}$ I think, last night.

Senator Buck. It would be my suggestion we apply that against the debt right now,

Mr. Eccles. What?

Senator Buck. Apply that against the debt now.

Mr. Eccles. Well, you have to apply it as debt matures. It has been applied. A billion dollars was paid on the certificates that matured on March 1; we applied a billion. And as of March 15 about 500 million of 3 $\frac{3}{4}$ percent tax-exempt bonds that were issued a long while ago are being paid off; and \$1,300,000,000, I think it is, of 1 percent notes that are maturing; so there will be \$1,800,000,000 paid off as of the 15th of March, and a billion was paid off, so \$2,800,000,000 will have already been applied, and there are other maturities coming along.

Senator Buck. Yes.

Mr. Eccles. On the 1st of April there is 4,800 million falling due. During the rest of this year there is around 5 billion of bonds and notes falling due, aside from the certificates. And those are the higher interest

securities. So the Treasury will have opportunity, of course, to apply this as the maturities come up.

Senator Buck. Do you think there is a fair possibility or a good possibility that half of that 25 billion might be used to reduce the debt before it is completely expended?

Mr. Eccles. I would say that depends on the budget picture. It depends on two things. First, it will depend upon--

Senator Buck. It depends upon what we appropriate in Congress, of course.

Mr. Eccles. Well, there are two things. It will depend upon, first, the extent to which we maintain the national income, and that will depend upon the wage-price program and upon the production we get.

Now, at the present time it is indicated that our national income for this year should exceed what was estimated at the time the budget was made up. Our staff feel that it should run around \$150,000,000,000, and it is possible that it could go as high as \$160,000,000,000 if we get production going well. I think the budget was based on \$140,000,000,000. If that is true, we should get a little more revenue than was estimated, if we don't reduce taxes further. And I think that at this time it would be a tragic error to cut taxes while you are fighting inflation. You would be going in two opposite directions at the same time, to cut taxes on one hand and try to fight inflation on the other, and therefore I would say that we should suffer the taxes that some people think we are suffering for a little while longer; and if--

Senator Buck. At least until we get the budget down.

Mr. Eccles. Yes. And if we do that, certainly we will begin to get into a balanced budget, and these funds that the Treasury has can be used to apply against the debt, and I would hope that 10 billion, 12 billion, and even more than that might be applied; and if we do that, nothing will be as helpful and as favorable toward stabilizing our economy and preventing inflationary developments as that kind of a fiscal and monetary program.

Senator Taft. But the net result is that if we loan Britain \$3,750,000,000, the debt will be \$3,750,000,000 bigger when you get through applying the cash balances; isn't that so?

Mr. Eccles. Well, no, because the debt will be spread. It will not all come in this budget. The debt--

Senator Taft. You cannot be sure of that, can you? The British can draw it at once if they want it--

Mr. Eccles. No, they can't.

Senator Taft. And pay no interest now. So---

Mr. Eccles. No, they can't draw it at once, because that is not the purpose or the intent of the loan. The purpose of the line of credit is to facilitate the purchase by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional postwar deficits in its current balance of payments, and to help the United Kingdom to maintain adequate reserves in gold and dollars, and assist the Government of the United Kingdom to assume the obligation of multilateral trade.

Now, certainly, for the United Kingdom to come in here, in the light of that purpose, and say, "We want that \$3,700,000,000 put to the credit of the Bank of England at the Federal Reserve Bank of New York, or we want it to be put in earmarked gold." I think we would say, "No, that is not the purpose of the credit. It isn't the situation for which it is to be used."

Senator Taft. That is not what Mr. Clayton and Mr. Vinson said.

Mr. Eccles. Well, I am reading.

Senator Taft. They thought it was understood,

Mr. Eccles. I am reading it.

Senator Taft. The British intentions, they said, were to draw it gradually.

Mr. Eccles. Well, of course---

Senator Taft. But they were under no obligation imposed by the agreement.

Senator Radcliffe. Governor Eccles.

Mr. Eccles. The British would not have the slightest reason to draw the credit until they need it, and the fact that they have got the balances they have would certainly be the best assurance that the credit is going to be spread over a period of years. I know the British have expressed great desire or hope that they could avoid using the entire credit, that they could get their exports built up fast enough so that they might meet their balance of payments so as to avoid using it all, and I do not have the slightest concern, Senator Taft, about that all coming against the budget this year.

Senator Radcliffe. Governor Eccles, I asked Secretary Vinson that specific question. I told him although under the agreement it would be possible to draw the funds immediately, wasn't it true that a program or plan had been worked out by the United Kingdom and the United States by

which this money would not be drawn out at this time, and that should any effort be made to draw it all at once, it would be entirely contrary to the program and plan which has been worked out for the use of the funds; and it is my impression that Secretary Vinson stated very definitely that was the situation.

Mr. Eccles. Well, it is contrary to the purposes of the line of credit as outlined in No. 3 of the agreement.

Senator Taft. I think I could construe that agreement, if I wanted to, to justify the drawing down of \$3,750,000,000 at once, Mr. Eccles.

Mr. Eccles. Well, the point--

Senator Taft. It is so broad, the purposes are stated in general terms, that I don't think--

Mr. Eccles. They are not sufficiently general to do that.

Senator Taft. I don't say they will. I am only suggesting. And after all, it is a side issue. The question was whether when they got through drawing \$3,750,000,000 our debt wouldn't be \$3,750,000,000 bigger than if there was no loan.

Mr. Eccles. That is right. I will agree fully, Senator.

Senator Taft. That is the only point I was trying to raise.

Mr. Eccles. I agree fully that our debt will be \$3,700,000,000 more than it would otherwise be, even though it may be substantially less than it is now; it would still be more than it otherwise would be if they didn't get the credit.

Senator Taft. Yes. May I ask one question, or more than one?

Senator Murdock. You may ask any number of questions you want.

Senator Taft. From the UP, dispatch from London, February 22:

Disclosures that Britain had offered to extend the Soviet-British friendship pact from 20 to 50 years, and had proposed a 5-year British loan of £30,000,000 (\$120,000,000) to Russia were evidence of the Government's desire to ease the strain between the two great powers.

Sir Stafford Cripps announced in Commons that Russia had rejected the British loan offer, which carried 2½ percent interest. Russia wanted £100,000,000 (\$400,000,000) for 15 years.

Does the making of this loan to Britain help England in making a loan of that kind to Russia?

Mr. Eccles. Well, I would think it might.

Senator Taft. At $2\frac{1}{2}$ percent interest?

Mr. Eccles. I would think it might be, yes, of some assistance. The British no doubt know exactly what Russia wants to do with this credit, because a deal with Russia is usually equivalent to a barter deal, and Britain does have certain facilities, certain production facilities. For instance, we will take shipbuilding. Now, Britain has very large shipbuilding capacity. She had it before the war; she was the greatest shipbuilding country in the world, and her whole shipbuilding engineering trade is dependent upon a market, of course, for ships. Now, true she is going to have to replace a lot of her own. But at the same time I think Britain will pay off some of her obligations to countries like Norway, because Norway had some balances there, maybe Holland, and it may well be that she figures over several years on building some ships for Russia.

Senator Taft. But as far as this loan is concerned, what we are trying to do, as I understand it, is to increase British exports.

Mr. Eccles. That is right.

Senator Taft. Now, that purpose is not accomplished if they spend a lot of time making exports and giving them to somebody without getting anything back except an obligation; isn't that true?

Mr. Eccles. That is true, and I am perfectly sure that the amount of credits that Britain can stand without getting some back is going to be very small.

Senator Taft. In other words--

Mr. Eccles. And I think they are mostly symbolic. I think they are merely an indication. Britain has been an international banker for a long while. She knows the conditions in many of these countries, and I think that she may well make certain small credits, but I think that you will find in the aggregate she is going to make very little; she is going to be able to spend very little on that basis.

Senator Taft. Yesterday we asked the Secretary--I think Mr. Clayton--whether--perhaps it was Mr. Martin--they knew of any such loans, and there was one spoken of to Greece and one to Czechoslovakia, but this Russian thing wasn't mentioned.

Mr. Eccles. Well, they possibly didn't know of it.

Senator Taft. It seems to me with three countries like that it becomes quite a general policy on the part of Britain to loan money around the world at $2\frac{1}{2}$ percent or more while they are borrowing from us at 1.62.

Mr. Eccles: Well, the money that Britain gets from us and Canada and others is not going to be so much that she will be able to loan it freely without cutting further her austere standard of living. And the extent to which she does this, it comes out of the hide, in a way, of her own people. It cannot be otherwise.

Senator Murdock. Senator?

Senator Capehart. Well, may I ask this question, then?

Senator Murdock. Will you yield, Senator Capehart, if you don't object, to Senator Millikin, his turn now?

Senator Millikin. I will yield.

Senator Capehart. Well, I wanted to ask the question while it was fresh: Do I understand you to say the loaning of money to foreign countries automatically reduced the standard of living of the people?
(Laughter.)

Isn't that what you said?

Mr. Eccles. No, no; I didn't say that. The point I was trying to make was this: That Britain wanted substantially more credit than this in order to be able to balance her payments. Let me see if I can explain it this way: Britain's exports will not be nearly large enough to offset her needed imports of food and raw materials, and she needs this credit in order to balance the difference between her exports and her imports.

Now, to the extent that she consumes a minimum, and reduces her standard of living, she can export more than she otherwise would. She will have to do that, according to our estimate, for her to get along with this amount of credit. She wanted \$6,000,000,000 to commence with, and by the time we got through negotiating the thing we got down to this, and we feel that was a pretty tight deal and will require her to maintain a pretty austere standard of living to get along with this limited amount. That was the point I tried to make.

Senator Capehart. In other words, she must export more than she imports?

Mr. Eccles. Well, she must export more than she otherwise would if her standard of living were higher.

Senator Capehart. That is right.

Senator Murdock. Senator Millikin, the Chair will be pleased to recognize you at this time.

Senator Millikin. Thank you.

Governor, you have already made it clear that you do not regard this as a strictly commercial loan.

Mr. Eccles. That is right.

Senator Millikin. And so, of course, all the factors of control do not exist in your own mind.

I would like to have your observations on the weight that we should give to the fact that the British defaulted their World War I loan.

Mr. Eccles. I wouldn't give it any consideration, absolutely none. I think that we are largely responsible, in a way, for that default. In the first place, Britain was a partner in the last war. We pooled our resources then to lick an enemy, as we did now. That should have been on a basis of lend-lease at that time, but it wasn't; and to the extent, of course, that it wasn't, there was a postwar debt left over. I have some figures on that which seem to me significant, and there has been a lot of misunderstanding about what happened as a result of those debts. I understand Secretary Vinson gave you some figures on that the other day, but I will just repeat--

Senator Millikin. I think it ought to be cleared up.

Mr. Eccles. I will take what was loaned during the war. I think no part of that should have been charged to her. We were partners in a war, and no part of that should have been charged to Britain. It is true we charged it to her, and she loaned to France, and other countries, and they didn't pay her, and she didn't pay us. That is what happened. But after the war there was \$600,000,000 which was the total postarmistice loan that was made to Britain.

Now, here is what Britain paid: Up until the time of the moratorium, on all of her debts--that is including the war loan, which I said shouldn't have been charged to her--Britain paid on principal \$400,000,000, and she paid on interest \$1,600,000,000; or she paid a total in interest and principal, up to the time of the moratorium, of \$2,000,000,000.

Now, the total principal including the war debts was four billion three. That is, the total amount of money we let the British have, or goods we let them have, during the war as well as the postwar, was \$4,300,000,000. Up to 1931 when this country granted a moratorium, she had actually paid us in dollars 2 billion, or nearly half of the total amount in dollars.

Now, I don't think under the circumstances that that is a bad record, and I don't think that Britain should be called a defaulter because of that. I don't think that it should be made to appear that the British didn't intend and didn't desire and didn't want to pay their debt. We granted the moratorium, and she paid the payments until we did grant the

moratorium. She did not default. We granted the moratorium. She might have defaulted if we had not, I will admit that, but we granted the moratorium in this country. I think there has been entirely a misconception of the British debts after the last war, and it is something that isn't nearly as bad as the opponents of the British would make it appear.

Senator Radcliffe. Governor Eccles, do you think that our tariff policy--

Senator Murdock. I think, Senator Radcliffe, since I have been in the chair, we should observe mutual respect among Senators.

Senator Radcliffe. Well, I will prepare--

Senator Murdock. For one Senator not to interfere with the other.

Senator Radcliffe. I thought the Senator had finished. I will wait until he has.

Senator Murdock. Yes.

Senator Radcliffe. Oh, of course.

Senator Millikin. Governor Eccles, you make the premise that we were in a partnership in the last war and we were obligated to Britain for winning the war.

Mr. Eccles. That is right.

Senator Millikin. Of course, that is subject to much debate, and I shall not enter upon it here. You stated we had granted a moratorium. Did we grant it for a limited or an unlimited period?

Mr. Eccles. I don't think it was limited. Was it limited?

Senator Millikin. Of course it was limited.

Mr. Eccles. I don't know. What period? Has the moratorium expired? We can look that up,

Senator Millikin. The moratorium has expired. There is no question about it.

Senator Taft. I thought Hoover's statement was for 12 months.

Senator Millikin. Of course, there was a definite limit on it. If there is any question about that, let us get the fact in the record. I thought it was notorious that it was a definite limit, and that thereafter--and here is what I would like to have your comment on--by unilateral decision Great Britain did not make any more payments.

Mr. Eccles. Well, that is correct. Here is our situation 12 months after that. The moratorium was in 1931.

Senator Millikin. Yes.

Mr. Eccles. If you recall, the depression that we had in this country was in 1931.

Senator Millikin. Yes.

Mr. Eccles. Unemployment.

Senator Millikin. We needed the money then.

Mr. Eccles. No. Britain couldn't pay us dollars. If she had had dollars to pay us, she wouldn't have borrowed the dollars.

Senator Millikin. Yes.

Mr. Eccles. But Britain wanted to pay us in goods. Britain had unemployment, too.

Senator Millikin. Yes.

Mr. Eccles. And Britain would have been willing to ship goods to us in 1931. Do you see any prospect, when we didn't have the ingenuity within our own country to keep these factories and our own labor busy producing goods for ourselves--do you think that we would have been willing to add the surplus British goods in our market so that they could get dollars to make payments?

Senator Millikin. Why, of course, we were completely unwilling to do it.

Mr. Eccles. Yes.

Senator Millikin. But we did not agree to take goods from Great Britain, and my point is that--if it is involved at all, and I am trying to get the weight to ascribe to it--my point is that Great Britain unilaterally decided to quit paying.

Now, does that have any bearing on this new loan? If we put up tariff walls again, if Britain does not make the exports she expects to make--if, if, if--and the going becomes tough, may we not consider that we have a precedent in the picture for another unilateral default?

Mr. Eccles. I would think definitely, if we considered it to our internal interest not to take foreign goods so that foreign countries could get dollars, whether we do it by quotas or tariff or whatever way--if we would consider in our own interest that we shouldn't take foreign

goods, in preference to taking them and having the loan paid, then the loan will default. We will make the choice.

Senator Millikin. Yes.

Mr. Eccles. We will make the choice whether we want to make the conditions possible to pay the loan.

Senator Millikin. Yes.

Mr. Eccles. And if we think it is in our interest to give a moratorium instead of taking the goods, then that is exactly what we will do.

Senator Millikin. Now, that brings me to my question: Then those factors that you have just mentioned should be considered as written into the bond; is that right?

Mr. Eccles. No; I don't think they need to be written in the bond at all.

Senator Millikin. Well, if it is not written in the bond and not agreed from the beginning, then you come up against an inequity and unilateral revocation.

Mr. Eccles. How are you going to write it in the bond? You know the terms of the loan. I hope that we are not such novices that we don't know how foreign loans are paid. I hope we are not such novices that we do not realize that the only way foreign obligations can be paid is out of goods, services, or gold.

Senator Millikin. Yes. Then the people should understand--

Mr. Eccles. Of course.

Senator Millikin. That in making this loan if it gets tough for Great Britain to pay it, she may unilaterally decide not to pay it.

Mr. Eccles. No; if it gets tough for us to accept the goods.

Senator Millikin. Take it as you please.

Mr. Eccles. It won't be--

Senator Millikin. Take it as you please. That pleases me even more, because I am coming now to the import angle.

Mr. Eccles. I would tell the people of this country definitely how foreign loans are paid. If it is tough for us to accept goods and services in payment of the loan, or if we are unwilling to travel abroad and leave enough dollars, then certainly they cannot get the dollars to pay the loan,

Senator Millikin. I think that is a very enlightening statement.

Mr. Eccles. Thank you.

Senator Millikin. I am glad you made it.

Now, Governor, let me ask you: If it is advisable to have export licenses in order to avoid domestic dislocation, why is it not advisable to have import licenses for the same purpose?

Mr. Eccles. Well, I think so far as imports are concerned we would be delighted right now to increase our imports very substantially.

Senator Millikin. I am not talking about whether we would be--

Mr. Eccles. To buy a lot of things.

Senator Millikin. I am not talking about whether we would be delighted or not delighted. If the principle is good to have export licenses to prevent domestic dislocation on exporting, why is it not equally good to prevent the same dislocations on importing?

Mr. Eccles. Of course, I do not think it should be on after you have a chance to get a complete reconversion and a readjustment here. I think that as a basis of a permanent peacetime economy--

Senator Millikin. Yes.

Mr. Eccles. You can't very well have either.

Senator Millikin. Then, the purpose of the license is to overcome a dislocation.

Mr. Eccles. Yes.

Senator Millikin. Let us call it a temporary dislocation.

Mr. Eccles. Well, the purpose of the license, of course, is to prevent an over-all inflationary pressure from foreign purchases.

Senator Millikin. Yes.

Mr. Eccles. That is what the purpose of the license is at this time.

Senator Millikin. So that we are in that stage at this time now. We might reach a stage at some point in the future where the reverse would be true. If we should put the control on exports, why not the control on imports?

Mr. Eccles. Well, we possibly will in the form of quotas and tariffs.

If the American people and the Congress choose to do it, that is what they will do. They have done it before, and they may do it again.

Senator Murdock. May I ask the Senator this?

Senator Millikin. Certainly.

Senator Murdock. Referring to the import licenses, have you used the term synonymously with quotas, quota restrictions?

Senator Millikin. I use the term in this sense: that if we can prevent some short material in the United States from being exported with an export license, or by the withholding of an export license, then I say logically it follows that for the same reason we should be able to prohibit the import of something that will accomplish an equal dislocation, and for the same reason.

Senator Murdock. Does the Senator have in mind, say, for instance, the wool and sugar industries of the West, in propounding the question?

Senator Millikin. I must say that is always in my mind. (Laughter.)

Senator Murdock. I think it is a very important question, and I am happy that you asked it.

Senator Millikin. Yes.

Senator Murdock. I hope that the witness will give you a lot of enlightenment, Senator.

Senator Millikin. Governor, I want to ask you one more question and then I will leave you alone.

Senator Murdock. Can't we have an answer from him on your question?

Senator Millikin. The Governor can't answer that one.

Mr. Eccles. Well, now, wait a minute. I did answer the question. I have answered the last question you asked, as I understand it, and maybe I can't answer to your satisfaction but I answered to the best of my ability.

Senator Millikin. I am willing to let the record stand as it is.

Senator Murdock. I am not so willing. (Laughter.)

Senator Millikin. Governor, you and Senator Fulbright had, I thought, a very interesting discussion on an aspect of the same thing, to the point of bringing things in here that we really need here, that we do not produce, or that had become short through the operation of the war. That brings

to my mind the situation which I have heard elsewhere, and I would like to have your comment on it: That instead of this rigmorole of a loan, why don't we make out a straightout contract with Great Britain, "That over, say, the next 4 years we will buy a billion dollars a year of the following goods and pay you dollars for them, and the following goods to be highly selected goods of the type that we do not produce here or of which we are in short supply"?

Mr. Eccles. Well, I don't think that Britain could well ship us these raw materials and get the billion dollars a year over the next 4 years, because these goods that we are in short supply of can only come indiretly through, for instance--

Senator Millikin. Yes.

Mr. Eccles. We speak of, say, copper; you might say iron ore.

Senator Millikin. Yes. Let us say zinc and rubber.

Mr. Eccles. Let us say lumber, for instance.

Senator Millikin. Yes.

Mr. Eccles. Well, the world is even more short today of lumber than we are,

Senator Millikin. Well, let us pick a list of things out that we do need, that we have to buy anyhow, and make them a definite, outright agreement to buy; if you don't like a billion a year, make it 500 million.

Mr. Eccles. Britain doesn't have the goods to ship.

Senator Millikin. Well, but Britain by her internal arrangements can finance that kind of a transaction.

Mr. Eccles. Britain would then in turn have to make some bilateral-- that is--

Senator Millikin. She wouldn't.

Mr. Eccles. All right, but that, of course, then is getting right back to the basis of a barter arrangement.

Senator Millikin. Governor--

Mr. Eccles. What we would be doing would be making a specific, definite barter arrangement. Now, what we had better do, instead of making a barter arrangement with Britain, if that is what you want to do, is to make a barter arrangement with the Malayan Peninsula.

Senator Millikin. Yes.

Mr. Eccles. For tin. You would make a similar arrangement, we will say, with Chile, for copper.

Senator Millikin. Yes.

Mr. Eccles. You would make an arrangement with central Africa, Rhodesia, for copper. Now, they would get dollars, and in turn those dollars might find their way back ultimately to Britain for goods.

Senator Millikin. Let me suggest something to you.

Mr. Eccles. But we finally meet the problem of exchange convertibility, which is the immediate problem.

Senator Millikin. You having invented a problem which I have postulated, my point is, Great Britain wants dollars.

Mr. Eccles. That is right.

Senator Millikin. All right. We will furnish her dollars for furnishing us goods. Now, you can call that barter if you want to. That is ordinary trade.

Mr. Eccles. She can't furnish it.

Senator Millikin. Great Britain through her internal handling of the dollar plus sterling can get us rubber; can get us zinc.

Mr. Eccles. No.

Senator Millikin. Can get us these goods.

Mr. Eccles. No; she is short of all of them just as we are. The world today is short of those things. It isn't a shortage of dollars basically,

Senator Millikin. Yes.

Mr. Eccles. What the world is up against, of course, is finally an immediate basic shortage of goods.

Senator Millikin. Yes.

Mr. Eccles. Now, these dollars that we furnish to Britain, that Britain will expect to use to put her on a cash basis with other countries in a world where she trades, will ultimately come back here for goods.

Senator Millikin. Yes.

Mr. Eccles. I know of very few goods of any kind today that are in surplus supply.

Senator Millikin. Suppose, Governor, that we made it on a very modest basis so far as goods are concerned, over a period of a few years. Let us say we deferred completely the delivery of the goods for 5 years, and then they would start delivery.

Mr. Eccles. Well, I think it would be very much easier to get an arrangement of that sort through, because if we get such an arrangement and we are willing to take these goods that you want to take directly, then we will get those goods.

Senator Millikin. The basic difference between the two schemes-- and I am not the sponsor of the one I am talking to you about, but I want to weigh it finally--the basic difference is, Governor, that under this scheme we might have to take imports of a character that we didn't want at all; whereas under this other scheme the money involved would be the same, but we would be getting what we want.

Mr. Eccles. Well, of course, the question of what we want depends upon a lot of personal interests.

Senator Millikin. Yes.

Mr. Eccles. And there will never be an agreement on that. The exporters always want all the credit that this country will extend.

Anybody that has exportable surpluses--the cotton people, the machine tool people, and certain exportable surplus industries--what they would like to have, of course, is a larger foreign trade.

Senator Millikin. Of course.

Mr. Eccles. That is a question of interest.

Senator Millikin. Of course.

Mr. Eccles. Now, they are not concerned with what goods may come back in payment that puts other industries out of business. That is not going to concern the exporter. That concerns the industry that is affected by the import.

Senator Millikin. Well, of course--

Mr. Eccles. So that you have got the constant pressure between the individual groups.

Senator Millikin. Yes.

Mr. Eccles. That is how you get these differences of opinion.

Senator Millikin. That concerns obviously the fellow who is lending the money or spending the money, and we are that fellow.

Mr. Eccles. Well, of course that is right, but the Government is acting, I suppose, for what would contend to be the majority opinion. That is the way it would finally turn out.

Senator Millikin. If, Governor, due to the short supply that we have been discussing, if over the next 4 or 5 years those supplies are not available to us, and if Great Britain is to enlarge her exports with us, does it not follow that we have to take a lot of stuff that we may not want, or may not need?

Mr. Eccles. Well, of course, Britain does not enlarge her exports to us over the 5 years. You see, there is no payment whatever for a period of 5 years.

Senator Millikin. Well, but Great Britain is intending to enlarge her export over the 5-year period; isn't she?

Mr. Eccles. Well, not necessarily to us.

Senator Millikin. Well, how is she going to enlarge them?

Mr. Eccles. Well, she is going to enlarge her exports, I suppose over the rest of the world, and the exports that she sends to us she would expect, of course, to use to get certain things here that she has to have.

Senator Millikin. That is right,

Mr. Eccles. I suppose food would be one of the principal items,

Senator Millikin. That is right.

Mr. Eccles. But Britain doesn't have to enlarge her exports to the point of making payments. That is what I meant.

Senator Millikin. Well, I don't know,

Mr. Eccles. Over the next 5 years.

Senator Millikin. Well, I do not disagree with that.

Mr. Eccles. Yes,

Senator Millikin. But the whole thing, we don't know unless you go

to check into her exports.

Mr. Eccles. Oh, yes.

Senator Millikin. And we are the objective of a great part of those exports.

Mr. Eccles. Well, not a great part. We will be the objective of some of the exports; that is correct.

Senator Millikin. How much do we buy from Great Britain in normal times?

Mr. Eccles. Well, I don't know. Do you have those figures?

Senator Taft. About \$500,000,000.

Senator Fulbright. Five hundred million was testified yesterday.

Mr. Eccles. Yes. Now, of course, there are a great many things we would like to get from her.

Senator Taft. No; I made a mistake. \$500,000,000 were our exports to Great Britain. Our purchases were only \$150,000,000.

Senator Millikin. Yes.

Mr. Eccles. Now, there are a great many things we would like to get from Britain as soon as she can supply them. We know that certain British textiles, woolen goods and clothing are very desirable. We would like to get a lot of it at this time. And there is certain British cutlery that there is a big market for. Certainly there is plenty of market for Scotch whisky and English ale, and we can go down the line. There are linens, there are a great many things that England produces that our people would like to get just as soon as Britain gets enough surplus to send them.

Senator Millikin. Yes.

Mr. Eccles. So I think that for the next 5 years she will have no trouble expanding her imports to us for things that we would actually want and need and would like.

Senator Millikin. Yes. Well, I do not challenge that.

Senator Capehart. Mr. Chairman.

Senator Murdock (presiding). Senator, are you through?

Senator Millikin. Yes.

Senator Murdock. I believe Senator Radcliffe probably is next in line.

Senator Radcliffe. Well, I am only asking a question at this time. I will ask this one question: In the early part of your testimony you referred again and again to the close connection between the making of this loan and the Bretton Woods agreement, and citing the close interdependence of the two; in fact, that one more or less rests upon the other. Wouldn't you also place in that category, though probably not to the same extent, our policy of reciprocal trade agreements, as being a helpful factor, not to the same extent at least, but--

Mr. Eccles. Well, I think that our trade agreements and our proposed trade conferences are designed, of course, for the purpose of trying to work out an international trade relationship that will tend to assure a successful functioning of the International Stabilization Fund.

Senator Radcliffe. Well, if it does, wouldn't it be a very material benefit to the carrying out of both this loan policy and also the Bretton Woods agreement? It seems to me if we made a very valuable factor in that respect--

Mr. Eccles. They are all tied together, of course, as a part of the international economic arrangement upon which any successful international political arrangement must depend.

Senator Radcliffe. Just a moment ago there were cited figures. These illustrated the fact that in normal times we exported to Great Britain about four times as much as we imported from Great Britain. I assumed that no one--

Senator Taft. I may say that that did not include--those are visible exports. There probably is a considerable additional sum in--

Mr. Eccles. Invisibles.

Senator Taft. Invisibles, yes; in insurance and--

Mr. Eccles. Shipping.

Senator Taft. Shipping, and so forth.

Senator Radcliffe. In the services and things of that sort which would offset it.

Senator Taft. Yes.

Senator Radcliffe. Now, I assume that no one looks forward to an early resumption of such proportions. But do you not think it is very likely, if this loan arrangement is put through and Bretton Woods becomes

effective, as it is hoped it will be, and the reciprocal trade agreements operate successfully, that there is some reason to consider that Great Britain in the reasonably near future will continue to import from us large sums, large amounts of materials, probably not to the extent of 4 to 1, but to a very large extent?

Mr. Eccles. I think Britain will spend every dollar she gets, either directly or indirectly; that to the extent that we import anything from abroad, and to the extent that we give dollars for traveling or credit, the money is going to come back here.

In other words, directly or indirectly, the amount of foreign trade is going to depend upon the amount of goods and services that we buy from abroad and the amount of credit that we will give abroad. Now, that will determine the amount of your exports.

Senator Radcliffe. Well, I don't think anyone can forecast with any feeling of assurance just what the proportions are going to be or what amount of exports will go out of this country to Great Britain, but the point that I want to bring out is, if these various activities which we have been discussing, if they become operative and successfully operative, then we can reasonably look forward to Great Britain's being a very great buyer from us.

Mr. Eccles. Well, I am not so concerned about who are going to be the buyers. I say that what is bought from us in exports we will determine by the amount of foreign credits and the amount of goods and services we buy. Whether it is Britain or anybody else, we will get all the dollars that we make available through credits or through goods and services that we buy from abroad--we will get just that much spent here. I don't care whether it is Britain or who it is: I am not concerned about where the foreign trade comes from. We can be sure we are going to get just the amount of foreign trade we make it possible for the world to buy from us by our getting their goods, buying their service, or making them loans.

Senator Taft. Or investments.

Mr. Eccles. Well that is a form I was thinking of. Loans and investments are one, Senator.

Senator Murdock. Senator Radcliffe, are you through?

Senator Radcliffe. Yes, except--

Senator Murdock. Senator Capehart.

Senator Radcliffe. Except to make this comment: I agree with you it does not make so much difference where our international trade is, so we have it; but to my mind there are many advantages in having a large and healthy trade with Great Britain and having that develop after the war is

over and irrespective of what might be the volume and extent of our trade with the rest of the world.

Senator Murdock. Senator Capehart.

Senator Capehart. Mr. Chairman, it is getting late and I guess I haven't any other questions. I would like to make this observation: That it seems to me we are terrible people, we Americans. We were responsible for War No. I and we were responsible for England defaulting in her debts, and a lot of people tell us if we don't do a lot of things, we will be responsible for--

Senator Murdock. You are not attempting to speak for the whole committee at this time, are you, Senator?

Senator Capehart. We will be responsible for World War III, I am looking some day for someone who will give America credit for doing a lot of worth-while things in the world, rather than blaming us for things that happen throughout the world, because I don't think we were responsible for World War I, and I don't think we are responsible particularly for England defaulting in her debt, and I presume now, if she defaults again, that we will be blamed and be held responsible for her inability to pay the loans we are now talking about.

Mr. Eccles. I would like to disavow that you have any reason to come to such conclusions as the result of what I may have said.

Senator Capehart. Well, you made the statement that we were responsible for England defaulting on her debt.

Mr. Eccles, I said that we made the conditions that brought about the default.

Senator Capehart. Well, that is the same thing.

Mr. Eccles, Well, no; you can't just take something out of the context, you know. You have got to take the thing as a whole, and the difficulty is, too often we make a quotation, in order to make a point, out of the context of the statement. My statement should be read as a whole, and I think that there are few people who would come to the conclusions you do, Senator, if it were read as a whole.

Senator Capehart. Well, you must admit that we are blamed and held responsible for many things that happen in the world,

Mr. Eccles. Well, we live in the world, and we are a very important country. I don't think that we should disavow all responsibility for what happens in the world; we are not quite that isolated.

Senator Capehart. And it is very seldom that you listen to anyone

that praises our efforts and what we have done.

Mr. Eccles. I am perfectly willing to praise them, too.

Senator Fulbright. Mr. Chairman, there is one--

Senator Murdock. I don't want to impose on the gentleman, but I think we are trying to get through with the Governor before--

Senator Fulbright. If everybody was through with this, there was one point that was raised that was not--

Senator Murdock. I am reserving one question for myself.

Mr. Eccles. And I will not have to come back?

Senator Fulbright. You won't have to come back.

Senator Fulbright. There is one question that arose a moment ago that is not perhaps directed to this, and that is the reason I left it until the end. It was about this matter of the reduction of the debt and its inflationary aspect, as it is connected to inflation. It occurred to me that perhaps the immediate reduction of the debt in the sense of putting the money out in the hands of the owners of the bonds is inflationary, and that it is purely a matter of timing. Of course, I think it ought to be reduced, but this particular, this first year, I would say, is the greatest test.

Mr. Eccles. You are speaking of?

Senator Fulbright. Of our own debt.

Mr. Eccles. You mean reducing our debt?

Senator Fulbright. Didn't you answer with regard to Mr. Buck's testimony?

Mr. Eccles. I can explain that.

Senator Fulbright. Yes?

Mr. Eccles. If we pay off the debt, most of the obligations we pay are owed by the banks, and it reduces the bank asset on the one side and the deposit on the other. If the debts that are being retired were largely held by the public, then we would be substituting money in their hands in place of debt.

Senator Fulbright. Well, that is what--I think particularly these three and three-quarters you mentioned were probably held by individuals, though.

Mr. Eccles. They are, pretty largely, but there is less than 500 million of those out of this total of 15 to 20 billion of cash that the Treasury--

Senator Fulbright. I assumed--

Mr. Eccles. Out of a total of the figures that we were talking about, 10 or 12 or 15 billion--

Senator Fulbright. Yes.

Mr. Eccles. And this 500 million is held largely, I would say, outside of the banks, by the public. But here is the way that will be handled: The Treasury will draw out of its balance, and will turn that money over to the individual. The individual puts the money right back into an account. So what it amounts to is the same amount of deposits in the bank after the loan is paid as before.

Senator Taft. Well, after the loan--

Mr. Eccles. And it has this deflationary effect: That the cash, after it gets to the individuals, is subject to about a 20-percent reserve requirement; whereas the cash held by the Government is not subject to a reserve requirement; and therefore the banks, in order to meet the reserve requirements, would have to liquidate something, would have to sell something.

Senator Fulbright. But it is subject--I mean it is in the hands of the purchasers.

Mr. Eccles. To about 20 percent.

Senator Fulbright. I mean it increases the pressure on prices, I would think.

Mr. Eccles. No.

Senator Taft. Since the last drive, hasn't the Government--

Senator Fulbright. In the hands of the individual, I mean.

Mr. Eccles. Well, only to the extent that these are paid off to the individual and the individual gets cash. Now, he can, of course, turn around, and he may well do it, and buy nonmarket bonds. He can turn around today and buy E, F, and G bonds, which are on tap for savings funds.

Senator Murdock. Isn't this what you refer to, Governor: that a demand deposit in the hands of the Government has been created under present law without the requirement of any reserve whatever?

Mr. Eccles. That is right. There is no reserve requirement against war loan deposit accounts.

Senator Murdock. Now, if certain transactions are had whereby that deposit of the Government, of the same amount, passes into the hands of an individual and is redeposited--

Mr. Eccles. As a reserve.

Senator Murdock. Then immediately the bank must put behind that deposit, I think it is between--

Mr. Eccles. 14 and 20 percent.

Senator Murdock. Yes.

Mr. Eccles. Around 16, 17, average.

Senator Murdock. So that there is that difference, as you point out.

Mr. Eccles. That is right.

Senator Murdock. We passed that.

Mr. Eccles. Certainly it is not an inflationary operation. It is pretty negative, I would say, but it is not inflationary.

Senator Taft. Since the last drive the Government has billions of dollars on deposits in banks.

Mr. Eccles. Twenty-five billion, on the average.

Senator Taft. And in effect when they pay it off they simply reduce their balance in the bank.

Mr. Eccles. They draw it out of the banks, and if it goes toward paying off the bonds, it decreases the banks' holdings of Government securities and loans on Government securities. In December and November, they created 11 billion of new money. To the extent that you draw this money out of the bank and pay off 11 billion of that debt, you reverse the action that created the money. You completely reverse it, and the asset disappears on the asset side of the bank's balance sheet, and the deposit disappears on the liability side.

Senator Murdock. Governor, if there are no more questions from around the table, may I ask this? It was suggested by Mr. Clayton yesterday, and I rather infer that you agree with him, that we must to a very considerable degree reduce our tariff barriers, and we must largely do away with any quota restrictions. Now, if we do that and if this loan is conducive to that end, what happens to industries such as the sugar-beet industry in

this country and the wool industry in this country? Just how are we going to take care of them? How are we going to preserve them?

Mr. Eccles. I think that, of course, you will have the long fight on those issues as you have always had. I think that you will be required-- we will take sugar--to maintain a quota. The sugar industry would not have great difficulty competing with foreign imports if you adopt the same standards of living among the people of Cuba, we will say, as the American farmer who produces beets.

Senator Murdock. No; we have not got much to do with the standard of living.

Mr. Eccles. Well, that is just the point, and of course to the extent that you don't improve the standard of living by imports, it is not always in the best interest of the economy as a whole merely because a product is cheap. The public may buy a product cheap, and if the sellers of the product get little purchasing power, why, it nullifies it or it offsets it. If Cuba is to be a big importer of our manufactured goods, then certainly the standard of living of the people of Cuba must be raised. Otherwise, you don't get the benefits from the importation, merely to import a product at an excessively low price. True, our people get that product for a lower cost, and it increases their purchasing power to the extent that they buy cheaper, but in turn the Government loses the revenue from the tariff, and must therefore increase the taxes on the people as the result of that loss. I think you have to take those things into account. It isn't just that simple.

Senator Taft. I thought the whole purpose of this loan was to get rid of quotas. They are denounced in the head, in the preliminary. The whole purpose of this is to establish multilateral trade without quotas.

Mr. Eccles. I think that is what you are going to work to, but you are not going to get rid overnight of all the quotas throughout the world.

It is impossible to do it. We are not going to have a free trade world the day after this loan or after the Bretton Woods set-up, and you are not going to have a world with all quotas eliminated overnight. It takes a long time to make adjustments, and those adjustments can and likely will be brought about. Let us take the people of Cuba for example. You are not going to have the extreme poverty that you have there today and the extreme wealth. I think that that is going to straighten out. Not only that but as far as the American industry is concerned, you are greatly decreasing that cost through technological development. So that, as I say, you have these economic processes going on, and as they develop then it becomes possible to get rid of these things, we hope. But those issues will always be an economic and a political question, and you can take not only sugar and wool but you can take a lot of other items.

Senator Fulbright. Not much different from cotton, only we just face our situation a little differently.

Mr. Eccles. Well, the difference in cotton, cotton is a large exportable crop, but what cotton would like to do is always to import enough wool and enough sugar--

Senator Fulbright. So that they can sell them.

Mr. Eccles. So that their customers can get enough to buy surplus cotton. So it is a case of whose ox is gored.

Senator Taft. Except that cotton is not going to be able to compete with the rest of the world unless you do make a bilateral agreement on that kind of an item.

Senator Fulbright. If they mechanize, Mr. Clayton indicated the other day, and if they do succeed.

Senator Taft. Everybody else will mechanize, too.

Senator Murdock. Governor, the committee is very grateful to you for a very excellent presentation of the subject.

Mr. Eccles. Thank you. And I am thankful for the consideration of the committee.

Senator Murdock. We meet Tuesday morning at 10:30,

(Whereupon, at 1:30 p.m., an adjournment was taken until Tuesday, March 12, 1946, at 10:30 a.m.)