

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

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STATEMENT OF MARRINER S. ECCLES, CHAIRMAN OF THE BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM, BEFORE THE BANKING AND CURRENCY COMMITTEE OF THE SENATE,  
MARCH 8, 1946, ON THE FINANCIAL AGREEMENT BETWEEN THE UNITED STATES AND GREAT BRITAIN

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 ever 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.