

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  
HOUSE OF REPRESENTATIVES, MAY 22, 1946, ON THE FINANCIAL AGREEMENT  
BETWEEN THE UNITED STATES AND GREAT BRITAIN.

Mr. Chairman, I appreciate this opportunity to express my views on the proposed British loan. This is one of the most important issues of our time, and one of the most difficult. During the weeks and months of continuous negotiations which we conducted with the British representatives last Fall, I formulated three questions in my mind which I eventually found could be answered, at least to my own satisfaction:

1. Why do the British need help from abroad?
2. What would it cost us to help them out?
3. What would we get in return?

First: Why do the British need help from abroad?

They need it because they have just finished an all-out 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.

We in this country know something about the cost of war. We too have thrown our resources into the breach without thought of anything but victory. And we too face a tremendous job of reconversion and of recovery from the strain which the war effort placed on our economic and financial system. This job we plan to do with our own resources. Why can't the British do the same?

To answer this question we must look at the peculiar character of the British economy. We, in America, who are accustomed to a Nation with vast continental resources, find it difficult to realize how different is the position of a country where lifeblood is in foreign trade. The key to the whole British problem is that here is a country which cannot live largely from its own resources, a country which must import or die. The British are handling their domestic reconversion well enough but let's look at the problem they are up against in getting back to a pay-as-you-go basis internationally.

Britain's export trade, the main source of her international earning power, was reduced to one-third of normal during 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 real struggle to rebuild her export trade did not begin until that day. She has already made great progress under severe handicaps. She must free labor and materials badly needed for reconstruction at home in order to manufacture goods for export. She must renew contact with foreign markets and adjust her output to the world's needs. All of this takes time, effort, and organization. Meanwhile the essential imports of food and raw materials must keep flowing in if the British people are to survive.

This temporary loss of exporting power would have been serious enough by itself but in addition, again as a result of the war, Britain has suffered other losses of overseas income. 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. To finance her war effort, she had 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 to pay for current imports; in addition she no longer has as large a volume of liquid assets as would otherwise have been available to tide her over this postwar situation.

In short, the British need help from abroad in meeting the bill for essential current imports during the period when they are getting back on their feet in international trade.

Second: What would it cost us to help them out?

The bill which is before you calls for a line of credit in favor of the British Government up to an amount of \$3,750,000,000. This figure was not just picked out of the air. It represents the very careful judgment of the American negotiators as to the minimum amount which the British need from us. It assumes that the British will continue to maintain an austere living standard while they work their way out of their postwar predicament. It takes into consideration the extent to which they can use existing resources and borrow from countries other than the United States. It represents the hard-core deficit in Britain's overseas balance of payments during the postwar transition period.

Now 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. As a result of the way in which we financed the war, our national debt amounts to nearly 275 billion dollars and our

people possess a mass of excessive purchasing power. The great shortage of goods relative to this purchasing power has created dangerous inflationary pressures in our economy. The expenditure in our markets of dollars provided under this loan would admittedly add to these pressures at this time. However, the added pressures would not be as heavy as they might seem at first sight. The risks which remain are, in my judgment, a small price to pay for what we expect to get in return.

Expenditure of the dollars under the proposed loan would not hit our markets all at once. In fact it would be spread out over a number of years. The line of credit would be available until the end of 1950 and would be drawn upon by the British only as needed. Furthermore, many of the dollars drawn under the credit would be spent initially in other countries and might take some time finding their way back here. Even the dollars spent in this country during the next year or so would be used in part for purchasing goods in ample 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 over-all control of exports, through export licenses, whereby we can control the timing and nature of all foreign demands, whether they arise under this loan or otherwise. This control should be retained during the period of inflationary pressures in our economy whether this loan is made or not. 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.

Up to this point my assessment of the real cost of the loan has assumed that it would be duly serviced and repaid. But what of the risk of default? What if this loan proves to be a deadweight on the American taxpayer and not a self-liquidating investment in British recovery?

Of course this risk exists but in my judgment it should not deter us from action. It can easily be exaggerated and I, for one, would enter upon this loan with every reasonable expectation that it would be repaid. A country that has shown the vigor, the courage, and the strength of character that Britain has shown during this war period is a country in which we can have confidence. Through all the rigors of wartime life in England, the British people have shown a capacity for government and for management of their economic affairs which is rare in this world. The payments on this loan, which will probably amount to no more than 2 per cent of Britain's annual expenditures abroad, will certainly not prove unmanageable if we succeed in building any sort of a satisfactory postwar world. Of course 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. Further, we in this country must recognize that in the long run international trade must be a two-way street, and that only through an adequate intake of foreign goods and services can we sustain a thriving export business and enable the debts due us to be paid.

But let me impress this thought upon you: that our very purpose in making the loan is to create the conditions in the world under which it can be repaid.

Third: What would we get in return?

The contract for this proposed loan provides for repayment of the principal and for a moderate rate of interest, but at this juncture in our affairs at home we are certainly not looking for loans just for the sake of a financial return. On the contrary no foreign loan should be made at this time which does not reasonably promise lasting benefits and compensations to the United States far outweighing the financial considerations involved. My endorsement of this proposed loan to Britain is based on the firm belief that it is an essential step in world recovery and reconstruction.

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. We do not yet know whether the victory of American arms in the war will be crowned by victory of American ideals in the peace. But we do know that if the war-shattered world is not restored to a tolerable degree of economic health, our ideals of peace and democracy cannot survive.

This situation is a challenge to America. We have already gone far to meet this challenge but the measure which is now before you is in a sense the keystone of the whole program. As you know, this 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 turning these blueprints into a living reality. Without the loan, the British would have to go their own way without us--indeed in opposition to us.

As you know, Britain is the largest market in world trade so that her commercial and exchange practices have a very great influence on the rest of the world. Traditionally she has tended to follow liberal trade principles. If we refuse this loan, however, she could hope to maintain her essential imports only by making a desperate bid for domination in world markets. She would be forced to intensify the restrictive and belligerent currency and trading practices born during the years of war and depression. In order to exploit to the full her advantage as the world's leading importer, she would have to turn increasingly to state trading and

barter. A large part of the rest of the world would be forced into the same pattern and free enterprise in foreign trade would be strangled. Along this road lies further totalitarian development.

The alternative is clear. If we grant the British sufficient credit to cover that hard-core deficit in their overseas payments during the transition years, they will be able to work their way out of their postwar predicament in a peaceful and orderly way. They will be able to open their markets to the world on a basis of non-discrimination and receive access to foreign markets on the same basis. They will 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 have to be arbitrarily channeled along bilateral lines. Dollars provided by the loan would flow to the British Empire, to Latin America, to Western Europe--to all of the countries receiving net payments from Britain. The loan to Britain would become in this way a source of assistance to a great many other countries which desire dollars to make purchases here. In short, the road would be opened to a genuine world trading system, which is essential to the maintenance of productive employment and economic stability in a democratic world.

The costs and risks of this project must therefore be weighed against the objectives which we seek. Without effective British participation, which is possible only if we lend our aid, the Bretton Woods institutions and the International Trade Organization cannot fulfill the hopes which we have placed in them. Without the fulfillment of these hopes for a stable and productive 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.