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The Postwar Foreign Lending Program of the United States

It must be a familiar fact that today America is the economic giant of the world. We emerged from the war with tremendous productive power far surpassing anything in our previous peacetime history. At the same time, large parts of the rest of the world, as a result of the destruction and disruption wrought by the war, found themselves economically crippled. Fundamentally we are a healthy giant and much of the rest of the world is sick. Whereas before the war our physical production amounted to around 25 per cent of the world total, today our factories, mines, and farms are probably turning out more physical production than all the rest of the world combined.

To a lesser degree, this same situation prevailed during the war. American productive power, shared with our Allies through the Lend-Lease program, was the decisive factor in the defeat of the Axis powers. Our Allies in Europe and in the Far East came to rely heavily upon the supply line to America in carrying out their war effort.

But the war ended suddenly, and with it the pipeline of Lend-Lease supplies was stopped ran out. Now the demand in the Allied countries was for relief and reconstruction, but as a result of the war they were in no position to produce for export an amount sufficient to ~~meet~~ pay for their urgent import requirements. The enemy countries themselves, shattered by the effects of war and defeat, became public charges of the occupying powers. We have had to feed them and now find it necessary to supply them with raw materials and equipment to reactivate their industrial machines so that they may again produce to meet the needs of a distressed world. Even the countries in this Hemisphere which had largely escaped the physical destruction of the war had great deferred demands for consumer goods and capital goods which were available only from the United States.

It should come as no surprise, therefore, that there have been immense and pressing foreign demands upon our economy from abroad during the postwar period. Since at the same time foreign countries have been physically unable to produce even a normal volume of exports to the United States, these demands could not have been met unless dollar financing had been provided on a very large scale. Since private sources of capital could not be expected to carry the burden of this financing, the task has fallen to the United States Government, and in the period since the end of the war we have seen a tremendous out-pouring of Federal funds for grants and loans to foreign countries.

Before giving you a brief review of what has been done to date and of where we now stand, let me say a word as to the objectives of the foreign lending program. Obviously this is not a business venture in the usual sense. We are <u>not</u> lending money abroad for the sake of the interest which we may earn on the loans. We are <u>not</u> lending money abroad in order to develop markets and create employment in our export industries. We have simply faced the fact that unless credit was provided on a selective basis to permit the flow of American production to the distressed areas of the world, large portions of Europe and Asia would have been reduced to starvation, unemployment, and widespread social unrest. We have had to recognize that such conditions would have constituted a major threat to the attainment of the objectives for which we fought the war.

Our war aims can be simply stated. We seek a stable peaceful community of nations in which the peoples of the world can devote their talents and resources to their common welfare. We have been seeking through the United Nations to establish a political framework for such a world community, and our foreign economic policy has been directed to the same end. But political, economic, and social stability are all one, and none can be achieved without some measure of economic recovery in the war-stricken areas to which we have been directing the bulk of our foreign aid program.

I want to emphasize our stake in world stability because of some very mistaken notions held by some people in this country and widely exploited in Russian propaganda. One of these notions is that the capitalist economic system in the United States depends for its successful operation upon the constant stimulus of a huge export surplus. Accordingly, the view is expressed that we are the real beneficiaries of our foreign lending program, and that we should be pleased that foreign countries are prepared to borrow money from us and spend it here. It follows, of course, from this argument that if there is a let up in our foreign lending program our economic system will be condemned to unemployment and collapse.

So far as the development of our economy since the war is concerned, nothing could be further from the truth. We have been engaged in a constant struggle with domestic inflationary pressures arising out of the shortage of goods in comparison with the tremendous current and accumulated purchasing power of the American people. The shipment of vast supplies to foreign countries, while it cannot be said to have imposed any serious deprivations upon our people, has nonetheless added markedly to the inflationary pressure. There have been times, and there may again be times, when the problem of our economic system is to find markets for our production. This has not been true in recent years, nor is it true today. And when and if this situation again develops, it can be dealt with just as effectively through the extension of credit at home or by reducing the taxes which bear upon our people or by both. No, the case for foreign lending must rest upon our foreign policy objectives and our long-term interests in developing a healthy and prosperous world economy rather than upon any specious argument of short-term economic advantage.

Altogether since the end of the war the United States Government has authorized foreign grants and credits of about 16-1/2 billion dollars. The principal instruments in the postwar foreign loan program have been the Export-Import Bank, the lending power of which was increased from 700 million to 3-1/2 billion dollars in July 1945; the special loan to Britain of 3-3/4 billion dollars granted in December 1945; the delivery on credit terms of certain categories of Lend-Lease goods amounting to 1-1/2 billion dollars; sales of military surplus on credit terms, amounting to 1 billion dollars; and the special 350 million dollar appropriation for Greece and Turkey which is being advanced this year. In addition to these Credits, the United States Government has contributed over 3 billion dollars of relief supplies to UNRRA and in connection with the post-UNRRA program being carried out this year; we have promised large grants to the Philippines, although these have not yet been used; and we have been supplying some three-quarters of a billion dollars worth of goods annually to Germany, Japan, and other areas occupied by our armed forces. ~~(Although theoretically supplies to occupied areas are furnished on credit~~ terms, the prospects of repayment are so ~~uncertain that for~~ practical ~~purposes we regard~~ them as donations.)

Drafts upon these grants and credits, plus substantial liquidation of foreign gold and dollar reserves, have provided the means for financing a great export surplus from the United States. In 1946 our total exports of goods and services amounted to 15 billion dollars and total imports to 7 billion, leaving 8 billion as the net export surplus which had to be financed. Of this amount, 3 billion was covered by donations, 3 billion by credits, and 2 billion by the liquidation of foreign gold and dollar resources. The credits were made available almost entirely by the United States Government, and so were the donations (mostly through UNRRA and the occupied areas programs), except for 700 million dollars of private relief shipments and remittances in 1946.

In the first half of 1947, total exports were running at the annual rate of over 20 billion dollars, and imports at the rate of less than 8 billion dollars, with the result that the net export surplus was running at the annual rate of over 12 billion dollars, or over half again as much as in 1946 when it was 8 billions. This has put a heavy strain upon available financial facilities, especially since the amount of Government donations declined somewhat with the wind-up of UNRRA activities. During the first half of the year foreign countries speeded up the ~~consumption~~ use of their credits with the United States Government to a rate of 5 billion dollars a year, while drafts upon their existing gold and dollar resources reached an annual rate of 4-1/2 billion dollars.

It is perfectly apparent that unless new programs of foreign financial aid are launched on a large scale, foreign countries cannot much longer maintain this rate of deficit financing in their trade with the United States. Furthermore, there is little prospect that United States imports will expand greatly during the next year or so. As a result, the 20 billion dollar rate of American exports is going to have to decline unless new measures are taken to finance their purchases.

Under present programs, foreign countries will have available only about 6-1/2 billion dollars of grants and credits for expenditure

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in the United States during the coming fiscal year. Grants may again amount to well over 2 billion dollars, made up principally of the supplies to occupied areas, and private relief shipments and remittances. However, drafts on existing U.S. Government credits and on those which may be provided by the International Fund and Bank, plus some small private investment abroad, are not likely to provide more than 4 billion dollars as compared with the annual rate of 5 billion reached in the first half of this year. While the International Fund and Bank, to which the United States has subscribed nearly 6 billion dollars, are now coming into active operation, they are not set up in such a way as to provide really large-scale assistance at the present time. The function of the Fund is to provide short-term credits, while the present demand is for long-term assistance. The Bank, on the other hand, is limited in the scope of its immediate operations since the bulk of its funds must be borrowed in the private market and it must proceed with caution in order to retain the confidence of the investing public.

There remain available to fill the "dollar gap" the gold and dollar reserves of foreign countries, which under existing programs would have to provide some 5 billion dollars during the coming year if the 20 billion dollar rate of exports were to be maintained. Clearly this is not feasible. It is true that these reserves amounted to over 15 billion dollars at the middle of this year, and that in addition private citizens in foreign countries held some 3 billion dollars of dollar balances plus several billion dollars of long-term investments in the United States. But a large part of these assets is either not available to foreign governments (many of which still retain respect for private property rights) or must be conserved as reserves against currency in circulation in foreign countries or as "last ditch" reserves against international contingencies. More importantly, however, the aggregate figures are misleading, since the so-called "dollar shortage", while widespread, is nonetheless heavily concentrated in a few countries. Even though the total figures for available dollar assets in foreign hands may seem large, certain countries will still find themselves badly squeezed. Any extension of our foreign lending program must therefore be thought of in terms of meeting the acute situations of particular countries.

Similarly, on the export side, it is not very meaningful to talk in terms of aggregates, and to discuss whether or not from the point of view of foreign countries it is necessary to maintain the 20 billion dollar annual rate of exports reached in the first half of this year. It may well be essential to the attainment of our foreign policy objectives to maintain the flow of our trade to some areas, but it is equally clear that some countries have been purchasing more goods in the United States than were required to meet their essential requirements. The same can be said with respect to different commodities. On the whole, our exports of food, fuel, and raw materials have been meeting truly essential requirements. On the other hand, we have been exporting great quantities of non-essential manufactures, especially to countries in this Hemisphere.

The countries to which we have been lending on a large scale have, for the most part, confined their expenditures to essential goods, but our markets have also been open to countries which could afford to spend accumulated gold and dollar reserves upon non-essential goods. We have been unable to check this tendency since our direct controls over exported commodities have been largely dismantled. In the first quarter of this year, for example, we exported 63,000 passenger cars, 49,000 electric refrigerators, and 430,000 radio receiving sets, representing around 8 to 10 per cent of our output in these lines. While possibly some of these items were used to meet essential requirements, most of them must be regarded as needless frills. We need not become too concerned if such exports decline when foreign countries use up their freely available purchasing power.

As you know, a series of studies is now being prepared for the United States Government on the subject of our foreign aid program, both with respect to foreign requirements and with respect to the capacity of the American economy to produce goods for export. In particular the United States Government has indicated its readiness to consider further aid for reconstruction in Europe if the foreign countries themselves present a plan which includes a maximum degree of European self-help and which promises to put them on their feet again within a reasonable period of time. We all recognize in the words of the President's Midyear Economic Report to Congress that "the cost of effective foreign aid programs will be only a very small fraction of the cost of winning the war, and they are vital to the winning of the peace".