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REMARKS OF ALLAN SPROUL, PRESIDENT,
FEDERAL RESERVE BANK OF NEW YORK,
BEFORE THE FORTY-FIRST NATIONAL FOREIGN TRADE CONVENTION
WALDORF-ASTORIA, NEW YORK CITY
NOVEMBER 15, 1954

NEW OPPORTUNITIES FOR A LIBERAL FOREIGN TRADE POLICY

I am sure that you are all aware that my role as Chairman of the National Convention Committee of the Foreign Trade Council is tinged with fraud. I have lent my name to the Committee, but my name is of little value except to me. I welcome you to this city and to these meetings, but your real welcome comes from your directors and officers who have made all of the preparations for your comfort and convenience and, perhaps, for your enlightenment. If I am to make amends for the fraudulent quality of my role, it will have to be by honesty in speech.

Given the theme of this Forty-First Annual Foreign Trade Convention, I could do no less in any case. If we are to address ourselves effectively to the general proposition that "expansion of world trade depends on international goodwill and integrity", we must be temperate but honest in our assessment of our own problems and those of our trading partners throughout the non-Communist world.

This is not always easy. The pressures of personal and group interests tend to warp the views of all of us, no matter how hard we may try to be objective in our approach to the complicated problems of international trade and finance. And the temptation is always present to tell the other fellow - or the "foreigner" - what he should do to conform to our ideas of what is just and reasonable.

I hope, therefore, that you have all been inspired, as I have been, by the truly tremendous developments in the international political sphere during the past several weeks. In a brief space of time, and hoping and assuming as we must that the various parliaments will approve what has been done, even though the debates may be sharp, we have seen what appeared to be a complete breakdown of all or most of our plans and hopes for Western Europe and the North Atlantic Community converted into a great forward step. Age-old enmities on the continent of Europe appear to be on their way to amelioration or solution, commitments have been made by Great Britain which reverse the policies of more than a century, our own nation is widening and broadening its role of partner in world affairs in a way that must help to bury whatever latent isolationism still exists, and Russian attempts to promote division and suspicion among the Western powers have been checked.

These historic developments should put a new charge of enthusiasm and courage into our attack on the economic problems which beset our world. What has been achieved in the political sphere by goodwill and integrity, and by facing the stubborn facts of a difficult situation, should make it less possible to continue to view our economic problems with such narrow perspective that caution is always preferred to daring, and the tortoise is taken right out of Aesop as the emblem of progress. I am neither proposing nor predicting a dash for free trade by the United States, nor a dash for convertibility by the United Kingdom, nor a

dash by any country or group of countries away from the practical problems and real risks of commercial and financial decisions. I am saying that, in the face of this giant stride forward in our political affairs, we should proceed with better heart and greater urgency to examine critically, and with awareness of the need for mutual adjustments, the impediments and obstacles which have slowed down progress in achieving our international economic objectives.

I hope I shall not be misunderstood if most of my remarks seem to have reference to the United States, the United Kingdom and Western Europe. There will be no disparagement of the importance of our neighbors in the American continents, nor of Asia and the Middle East in such a presentation. It will represent, merely, a personal belief that the fundamental problems of international trade and finance, affecting all of the free nations, will respond most quickly to treatment at the nerve centers of trade and finance.

What have been the basic objectives of our foreign economic policy since the end of World War II? First we addressed ourselves to the relief of individuals and groups of people stricken by war - an outlet for our sound humanitarian instincts. Then we embarked on a program of economic aid to national units to help restore productive capacity and trading relationships destroyed or distorted by war - an act of enlightened self-interest. More recently the emphasis has been on military aid to our friends abroad, with whatever economic benefits might accrue - a necessary response to the menace of a totalitarian and apparently hostile force which is loose in the world. We also participated in an attempt to set up an international trade organization - an evidence of awareness that good international economic relations rest, at bottom, on good trade relations. By trying to do too much, by trying to cover countries in all stages of economic development with one set of rules, and by trying to harmonize international equilibrium and domestic stability by international agreement, this attempt courted and achieved failure. It did throw off, as a by-product, the General Agreement on Tariffs and Trade, however, which may bear the seed of greater international collaboration on trade matters and which already has some successes to its credit. As you know, an important meeting of GATT is now being held at Geneva, Switzerland, with United States representation. It is to be hoped that this meeting will have constructive results which will recommend themselves to the United States, as well as to the other participants.

And almost throughout these postwar years there has been recognition of the need to help the so-called underdeveloped countries improve their economic condition and performance - a recognition of the fact that multilateral trade concepts which rest too largely on a species of specialization which tends to freeze existing differences of skills and facilities, as between nations, are no longer tolerable. The "underdeveloped" countries want to be and should be something more than sources of raw materials for the "developed" countries.

The underlying economic goal of all of this effort has been the creation of the widest possible area of non-discriminatory trade relationships and the widest possible return to freely convertible currencies. There has been considerable progress. But I would hope that the pace of progress could now be accelerated. Even without trying to read too much long term significance into short term movements, there have been encouraging signs of the development of the kind of a trading world we have sought to achieve. And recent international political developments seem to me to have given us a new frame of reference.

Perhaps, first on the list of encouraging signs is the fact that economic readjustment in this country, which began last year, has not degenerated into a depression and has not had the serious effects on our international trade and on economic conditions abroad, which many feared and many expected. For too long we were considered to be a race of economic barbarians, given to wild and wide swings in economic activity which, because of our weight, and height and reach, endangered every other trading nation. The recession in this country which began in the summer of 1953 has been a moderate one, and already it seems to have lost its force rather than feeding on itself. We may now be regarded as a civilized economy.

Related to but also separate from this heartening display of stability on our part, has been the growing economic strength of many foreign countries. In the United Kingdom and Western Europe, in particular, economic progress has continued while we were in recession, the first time this has happened in a great many years. Production has increased, internal fiscal and monetary conditions have improved, controls including some controls on dollar expenditures have been relaxed, and a better competitive position has been attained. And despite a rise of commercial exports of the United States, and some decline in our imports, with a resultant increase in our surplus of exports, the gold and dollar reserves of foreign countries have shown a substantial gain - from mid-1953 to mid-1954 approximately \$2.3 billion or 10 per cent. To be sure, United States payments for services and remittances, for military expenditures abroad, and for economic aid, contributed to this result. But without the general improvement in international economic conditions, and the greatly reduced dependence of the rest of the world on supplies from the United States over the last few years, this sharp increase in gold and dollar reserves could not have taken place.

It is highly significant, I believe, that this record has been made while discriminatory trade restrictions aimed against dollar imports were being relaxed in many countries, while international commodity markets were being reopened in the United Kingdom, and while greater freedom of dealing in various currencies was being permitted abroad. International trading has become more competitive, has been less shielded from the tests of free competition, than at any time since the end of World War II. And this testing of the economic strength of our trading partners, prior to formal and final steps of whatever character and degree into the supposedly chill waters of non-discriminatory trade and currency convertibility, reduces the risks of the final plunge and makes it that much more likely that the final plunge will eventually be taken.

It is important to emphasize this demonstration of the ability of trade and payments liberalization to go forward more or less hand in hand. We have always coupled non-discriminatory trade with currency convertibility in our prescription for international economic health. We have held, rightly I think, that currency convertibility with continued and widespread discrimination against dollar imports would be a largely sterile accomplishment, not only for us but for those who might attempt to pursue two such mismatched policies. A phony equilibrium, involving formal convertibility but achieved or maintained by quantitative controls, would be only a little more enduring than the present equilibrium of quantitative controls plus exchange controls.

While there are encouraging signs and portents, however, we can by no means conclude that all of the conditions precedent to freer trade and payments have been established. Thus far many countries, including our own, have made their contributions, each one largely in its own interest, but nevertheless contributing to the general forward movement. Yet I think there is some feeling among those of you who are interested in foreign trade and committed to a more liberal foreign economic policy that, after a magnificent start, we are now inclined to do less than our share.

Questions are raised on two main scores - our relative reluctance to invest abroad, and our halting approach to a more liberal foreign trade policy. The lesser problem of the two, in my opinion, is foreign investment. I say the lesser of the two, not because I think it is of little importance, but because I believe that questions relating to foreign investment are often based on a false assumption, and because I believe the problem has a lesser psychological impact than the problem of foreign trade policy.

The false assumption is that we are trying to recreate a past situation in which a good "creditor country" is a heavy exporter of capital to redress its balance of payments. This was a part of the combination of factors which made the mechanism of international trade and payments work comparatively well during the 19th century when the United Kingdom was the hub of world commerce and finance. It has less meaning and less force now when the United States occupies or shares that position, and when political stability around the world is more precarious. We have been described, and not wholly inaccurately, as the greatest "underdeveloped" country in the world. So long as this is so, and so long as this distinction is shared with our neighbor to the north, the competition of domestic plus Canadian investment is going to inhibit the growth of "foreign" investment. There are signs that the market for private foreign investment (I do not refer here to so-called direct investment), which has been largely frozen since the torrid twenties, is beginning to thaw a little. There is a trickle, and it should continue and grow, if the world climate gets warmer, but I would doubt that it will quickly become a torrent. And I would not want to see it forced by too much Government intervention. There are undoubtedly some things which our Government can and should do to promote private foreign investment. Perhaps the tax laws relating to such investment can be improved and perhaps some guarantees against special risks can be provided. But by and large, private foreign investment should be a matter of private risks and private rewards, with fair and equitable treatment at home and abroad the fundamental prerequisite.

Psychologically, what happens in the field of foreign investment has a lesser impact than what happens in the field of foreign trade, because the former is less in the public eye, because nobody seems to be hurt directly by its absence, and because in our thinking it is often considered to be a balancing factor after the trade returns are in.

Not nearly so much heat is generated by the failure of figures of foreign investment to come up to hopes or expectations, as is generated by trade decisions such as, for example, an increase in the tariff on dried figs or Swiss watches or the failure to award a generator contract to a low bidder from abroad. The latter incidents are commented on all over the trading world and interpreted as another sign of a return to stricter protectionism in this country.

No retaliatory moves are threatened because we don't export more capital, even though this is one of the factors behind discrimination against dollar imports.

And no domestic groups or individuals identify themselves loudly and effectively as being hurt by the failure of private funds to seek foreign investment opportunities. Apparently we can afford to get along with a gradual growth of private foreign investment, if progress is being made on the more explosive front of trade relations.

Since the end of World War II there has been no lack of organized study of our foreign trade relations, under both private and Government sponsorship. The Bell report, the Paley report, the report of the Randall Commission, and many others, have all gone over the ground, have all studied much the same facts and figures, and have mostly come up with the same general conclusions, pointing toward the desirability of framing trade policy so as to permit foreign exporters reasonably competitive access to most American markets. The fire and emphasis with which such recommendations have been made have diminished, perhaps, the closer the study group has been to Congressional attitudes, and to business and labor pressures, but whether the outcome has been a ringing affirmation of liberal trade policies, or an attempt to devise a program which would seem to have a chance of adoption, practically all of these studies have pointed in the same direction.

The net result so far has been some progress, including, more recently, holding the line against a revival of restrictionism, but now the need is to push forward with greater purpose. Now that we have pretty well accomplished the task of aiding in the reconstruction of the trading world, by Governmental gifts and loans of billions of dollars, we must overcome the difficulties of projecting a trade policy which will help to sustain what we have so greatly helped to create. I don't believe that our national penchant for "giveaway programs" extends so far as to make this our only solution of international trade problems. Surely we do not prefer to give away to foreign countries the products of our farms and factories and mines, rather than trade with them on some basis of equality? There must be some deeper force at work. I suspect that it is easier to get this great warm-hearted nation to adopt a program in which the burden is placed on all of us - as it is in the case of a "giveaway program" - than to adopt policies of trade liberalization which might, at least in the beginning, hurt some particular groups of our citizens. And the fact that with few exceptions, our national legislators are elected and re-elected on the basis, largely, of local issues rather than national or international issues, contributes to this seeming illogical result. Yet we all are aware that the "giveaway" policy is no longer generally acceptable either to those who give or to those who receive.

If we are to move ahead, new measures must now be devised and adopted. If we cannot or will not adopt policies which may temporarily hurt the few but are for the benefit of the many, had we not better give more attention than has been given to suggestions which would require the whole economy, and the whole nation, to help bear the economic pressures which might be placed on some localities, on some industries, on some groups of individuals by a more liberal foreign trade policy?

Of one thing I am pretty sure. We cannot afford to go back and we cannot afford to stand still. The twin goals of currency convertibility and non-discriminatory trade relations have been before the various trading communities for a long time. These goals are still believed to be attainable and they still

work their magic. But who can say how much longer, and in a more competitive world, the traders of other nations and the traders of this nation will submit to discrimination against their products without seeking more restrictive retaliatory action? Who can say how much longer so much of the trade of the world can be carried on with inconvertible currencies, without those trade areas which revolve around inconvertible currencies tending to fall apart? And, therefore, who can say how much longer we can expect to see progress toward a world of freer international trade and payments if these goals continue to elude us? The alternative of a United States which might be trying to rebuild barriers to imports, and of other principal trading nations of the world trying to build a permanent non-dollar bloc, is not a pretty one, but not an impossible one in the short run. And in the short run we can greatly jeopardize our chances for the long run.

As I said in a statement which your committee issued, in calling this meeting,

"Freedom to trade and freedom to spend the earnings of trade are measures of progress in goodwill and integrity. If we and the other nations of the world reject this approach, we may well be setting a course toward insularity in trade and toward inconvertibility of currencies which it will be most difficult to alter for many years to come."

We cannot let this happen. It is time to tackle our problems of international trade and finance with the same indefatigable, patient, high level attention that has been given to our international political and military problems, and to our domestic economic program. In the present position of the United States in the world, these things are intertwined, and if we neglect one we imperil the others. It is time for a real effort on our part to make international trade something more than a step-child of domestic economic policy, and international finance something more than a step-child of domestic financial policy.

I hope, therefore, that your convention will address itself to the problems of foreign trade which it has before it, with a new fervor. In the light of recent historic accomplishments in the field of international political relations, and in the light of recent national successes in dealing with domestic economic readjustment, the impediments to a more liberal and a more stable foreign trade policy should look less formidable than they have in the past. The way is open to you to lead us in the path which we should follow.