

UNITED STATES FOREIGN LENDING AND THE REPAYMENT PROBLEM

The United States ^{POSTWAR} foreign lending program has now been in operation for over a year. By and large American attention, within the Government as well as outside, is still focussed on the immediate aspect of the program. We are all still primarily concerned with the needs of the post-war situation and the extent to which the United States, through its foreign lending, can provide the relief and reconstruction goods so urgently required in the rehabilitation of a war-torn world. Our evaluation of the accomplishments and deficiencies of the lending program so far has been largely in terms of to what extent and how promptly it has satisfied the emergency needs of the principal war-devastated areas.

I think this initial emphasis in our thinking has been altogether appropriate. The purpose of our foreign lending policy is to facilitate the prompt rehabilitation of the world economy; its rationale is well summarized in the opening paragraph of the official expression of that policy, the Statement of the National Advisory Council on International Monetary and Financial Problems transmitted by the President to Congress with his endorsement on March 1st of this year:

"The foreign-loan program of the United States, by assisting in the restoration of the productive capacities of war-devastated countries and by facilitating the sound economic development of other areas, is directed toward the creation of an international economic environment permitting a large volume of trade among all nations. This program is predicated on the view that a productive and peaceful world must be free from warring economic blocs and from barriers which obstruct the free flow of international trade and productive capital. Only by the reestablishment of high levels of production and trade the world over can the United States be assured in future years of a sustained level of exports appropriate to the maintenance of high levels of domestic production and employment."

The foreign lending program, however, has another aspect which we cannot afford to overlook, namely, the repayment problem. Except for its contributions to UNRRA, none of the U. S. participation in post-war world economic rehabilitation was intended to be on a non-repayment basis. Accordingly, we have before us the problem of making possible the repayment of as much as 15-20 billion dollars of long-term dollar credits which it is anticipated may be extended during the 1945-50 period. Dollar lending of this magnitude will mean average annual service charges of around \$1 billion throughout the 1950's and 1960's.

We are faced, in other words, with the same problem—on a greatly enlarged scale—that we faced after the last war but so signally failed to solve. Whether we are more successful this time depends largely on what we do from now on. The key to a solution of the repayment problem, it is generally recognized, rests in a full-scale revival of world trade on a multilateral basis. If such a revival takes place, the borrowing countries of the world should have no serious difficulty repaying long-term dollar credits, even of the above magnitude. An indispensable prerequisite of such a revival of world trade, in the view of the Export-Import Bank, is a satisfactory solution of the United States import problem.

You may wonder why the Export-Import Bank has such a vital interest in this matter. The reason is simple. The Export-Import Bank Act of 1945 increased the lending authority of the Bank from \$700 million to \$3 1/2 billion. This increase in lending authority was used by the Bank to provide dollar credits required to finance the most urgent reconstruction needs of the war-devastated areas until such time as the International Bank could take over. The Bank Act of 1945 expressed the policy of the Congress

that, so far as possible consistent with the purposes of the Bank, all loans shall in the judgment of the Board of Directors offer reasonable assurance of repayment. In accord with the broad concept of accepting our responsibility in world affairs on the basis of enlightened self interest, the Bank has accepted need as the first basic criterion of making its emergency reconstruction loans, and has appraised reasonable assurance of repayment as far as possible on the assumption that a revival of world trade on a sound multilateral basis would take place. We have taken a "calculated risk" in this regard on the grounds that any other course would have been defeatist and contrary to the intent of Congress and the broad U. S. interest.

But, whether or not a revival of world trade takes place hinges in large measure upon what is done in the next few years, including specifically what the United States does with regard to the import problem. The basic import problem for the United States is obviously the same as that which faces any country engaged in foreign trade, namely, over the long run it must accept imports of goods and services on a scale sufficient to provide the exchange necessary to pay for its exports both past and present. If we are ever to be repaid for the dollar foreign credits which have been advanced, it will be essential for the American people to reverse long habits of thought and recognize that under our new status as creditor nation an import surplus is normal and desirable.

~~From the standpoint of the borrowing countries, this means that they will have to develop an export surplus of approximately the same amount to meet the service charges unless this country provides them with the necessary dollars through continued private lending and direct investments abroad on a corresponding scale. From the standpoint of this country, this means that unless borrowing countries can develop such an export surplus they will either have to default on their obligations to us or drastically curtail their future imports from this country.~~

There are, basically, two patterns of national behavior on the part of the United States, the choice of which will largely determine whether or not and to what extent our loans will be paid back. They are:

First - We can continue indefinitely to lend abroad and in this fashion provide dollars on a scale sufficient to avoid a net repayment problem and thus postpone the day of reckoning.

Second - We can encourage the development of an increased flow of imports into this country sufficient to enable the borrowing countries both to meet the service charges on their long-term obligations to us and also to continue to buy the products of this country on a scale essential to their and to our welfare.

I find it hard to believe that many Americans would consciously favor sacrificing our export interests or encouraging an indefinite continuance of foreign lending with little prospect of eventual repayment merely to curtail an increased flow of imports into this country. The only real hope I see for a revival of real world trade, the re-establishment of an effective multilateral trading system, and the solution of the dollar repayment problem lies in the expansion of this country's foreign trade,

both on the import and the export side, and the eventual development of a normal import surplus. Our foreign trade percentagewise may be small. It may be only 5, 7, 9 per cent but it is my conviction that it represents the marginal difference between creating a climate in which we can have full employment, and a rising standard of living, or going backwards to a period of a lower standard of living with less production of goods.

The question that immediately comes to mind is: Will it be necessary to take positive steps to ensure an appropriate expansion of imports or will such an expansion take place more or less automatically during the postwar period?

There are several factors operating towards an automatic increase in imports:

First, travel expenditures abroad should increase substantially in the postwar world if for no other reason than the fact that our national income has risen so substantially above pre-war levels. Some argue that this factor alone will solve our import problem; in any event, it seems very likely that this will turn out to be the most important single source of extra dollars for foreign countries.

Secondly, imports of raw materials should be at substantially higher levels as a result of higher national income and the wartime depletion of domestic supplies of many such items. Who would have thought, for example, that copper, lead, and zinc would ever have been in short supply in the United States?

Thirdly, imports of luxury and semi-luxury items, non-competitive or only partially competitive with United States products, may rise substantially with high postwar national income.

As against these considerations -- although they clearly presage a larger total volume of imports in the postwar period than in the past -- we must bear in mind the fact that the same circumstances of high United States national income and demand for foreign products will set in motion as great or even greater demands in foreign countries for U. S. products. Experience has already demonstrated that foreign customers will buy American goods up to the full limit of their dollar resources. It has been the relative shortage of dollars abroad and not lack of demand for American goods which has operated since the late 20's to restrict the vigor and growth of our natural export industries. Indeed, foreign countries have tended to buy U. S. goods beyond the limit of prudent financial management. The pressure to do this will be greater than ever until the ravages of war have been repaired.

Because of the above considerations, it is my conviction that we cannot afford to sit back and rely upon a fortuitous combination of circumstances to bring about an increase in imports sufficient to achieve equilibrium in our international balance sheet. I feel, instead, that we should take positive and vigorous measures to ensure an import surplus sufficient to enable foreign countries to service their dollar obligations and still continue to buy our exports in large volume. However, I am quite certain in my own mind that it is private industry and not government which must undertake the leadership in the expansion of imports. Foreign trade,

because of its pioneering and romantic nature, lends itself to the best in the American tradition of private enterprise. It is in this field, perhaps more than in our domestic production, that the U. S. opportunity lies to demonstrate to the world the true achievements of the American way of life.

I share the opinion that the principal single step that can be taken in this direction is for us promptly to reduce our tariff barriers within the framework of the authority granted by Congress in the Trade Agreements legislation. There has never been a more appropriate time for tariff reduction than now. The sooner such tariff reductions are undertaken, the more effective in promoting imports they are likely to be. As a result of the war, many of the goods on which it would be appropriate to lower tariffs are not yet back in production. Furthermore, there is a much greater flexibility in the price structure during the immediate postwar period. Under these circumstances, an increase in imports would not be at the expense of domestic production. The effect of tariff reduction would be, not to contract current domestic production but rather to minimize expansion of capacity in our less efficient industries. Our protected industries would, in my opinion, benefit from a move which caused them at this opportune time to diversify their production and direct their plans for expansion towards new lines of output. If, however, tariff reductions are delayed too long, internal prices, costs and production will gradually have adjusted themselves to the existing tariffs, and any tariff modification thereafter will be injurious to specific domestic interests and unlikely to be feasible. While this may appear to be inconsistent with my earlier assertion that it is private industry and not government which must take the lead in expanding imports and now I am advocating a change in tariffs

which must, of necessity, be achieved through government action, I do not think there is any real inconsistency because I am certain all of you agree with me that neither Congress nor any agency of government is likely to work actively along these lines unless it has the wholehearted support of a group such as this.

The Export-Import Bank has endeavored faithfully to follow the mandate of Congress that we should supplement and encourage and not compete with private capital. The policy of the Bank is directed squarely to returning trade, wherever possible, to private channels and to this end it is avoiding wherever possible the government-to-government credits in favor of so-called exporter credits in which domestic suppliers participate. But our whole objective will be defeated if private capital is not better organized than it is at present to further our activities. The period of abnormality is gradually drawing to a close. I suggested recently in an address at the National Foreign Trade Convention in New York, the possible desirability of private Export-Import Banks, trade associations, or finance corporations which will aid the Export-Import Bank of Washington in its endeavors. I am confident American business ingenuity will be equal to taking over from the government the additional burdens war has created.

It is my earnest hope that we can reach and maintain agreement on the essentials of our foreign economic policy on the same bi-partisan basis free from the realm of party conflict as on our overall policy. I fully agree with the editorial statement in the New York Times of November 13, that "the liberal trade policy of which the Hull reciprocal trade agreements may be said to be the embodiment represents neither Democratic nor Republican doctrine. It represents, rather, the doctrine of free enterprise in its

international application as developed over the years and reinforced by the world's experience between the two great world wars." Times and conditions have fundamentally changed. It would be the height of folly to allow the old battle cry of "protectionism" versus "free trade" to serve as the basis for disrupting along purely party lines the well-conceived foreign economic policy through which this country is actively participating in the affairs of the world.