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FOREIGN AID AND THE TREASURY

It is an honor, indeed, for me to be the guest of the Florida Bankers Association here in Miami and have a chance to get acquainted with you. As a new man in the Treasury, pinch hitting on this occasion for Secretary Snyder who regrets very much that pressure on his time prevented his acceptance of your invitation, I am delighted to have the opportunity to learn from you how the Treasury can serve you better and to share with you some of our thinking.

Naturally, a group like this has a primary interest in the management of a Federal debt in excess of $250 billion. The policies pursued cut across the fields of money, credit, prices, wages, taxes, interest rates, and the formation of capital. How effectively the debt is handled in terms of reduction, whenever possible, distribution to meet the needs of all investor groups, and relationship to monetary and credit control, is a matter of vital concern to every citizen of this country. Difficult as was the task of raising these staggering sums, it is likely, in retrospect,

to prove child's play compared with the complexities of management the Treasury now faces. The advice and understanding of the entire financial community is needed, as never before.

My particular sphere of responsibility in the Treasury, however, is in the field of International Finance and its relation to the problem of our fiscal and monetary policies. World War II has brought about important changes in the structure of world commerce, and we must squarely face the new responsibilities which the changing character of the world economy has thrust upon us. Accordingly, I want briefly to review with you this morning what the United States has been doing with its foreign aid programs, and how the growing importance of our foreign trade is directly connected with our Federal budget.

We in the Treasury, like yourselves, are looking forward to an early end of United States extraordinary assistance. No one likes to give away money indefinitely, nor do self-reliant people enjoy receiving on such a basis. Let us not fail to recognize, nevertheless, the crucial importance of our postwar aid and the vital necessity of continuing the Economic Cooperation Administration until Europe fully recovers.

It seems to me that the whole approach taken by the American Government after this war contrasts most favorably with the approach taken at the end of World War I. In no area is this reflected more clearly than in the contrasting attitude toward the repayment problem after the two wars.

After World War I, we insisted, without any regard to the feasibility of repayment in real goods, that our European allies repay for all United States aid, even for the shot and shell which had been expended on the field of battle. After World War II, in contrast, there has been a growing appreciation of the fact that we can approach the whole foreign lending problem only from the point of view of a true appraisal of the recipient countries' capacity to repay.

In the case of Europe, there is an increasing recognition that we cannot reasonably expect Europe to repay all, or perhaps even a major part, of the total aid required from the United States. This current estimate of the repayment prospects for United States foreign aid, it should be noted, is contrary to the original hope of this Government. It was thought at the time of the Bretton Woods Conference that, apart from relief aid, the emergency reconstruction

needs of the war-torn areas of Europe and Asia would be on a small enough scale so that they could be met entirely through loans -- in the first instance by the Export-Import Bank and other government agencies and then principally by the International Bank for Reconstruction and Development. As we all recall, a large measure of dollar aid was rendered in 1946 and 1947 on this straight loan basis. There was the British loan of $3,750,000,000; Export-Import Bank reconstruction credits of over $2,000,000,000; and surplus-property and post-VJ-day lend-lease credits of over $2,000,000,000.

By the middle of 1947, however, it had become generally recognized that some new way of financing the dollar aid requirements of Europe had to be found. The Export-Import Bank emergency reconstruction credits were coming to an end early in 1947, as available resources were exhausted and in conformity with the understanding that the International Bank, which was just beginning to operate, would assume responsibility for this type of credits. The latter institution, however, found it impracticable to raise funds in the open market in the amounts required for further reconstruction needs; nor did it appear likely that the countries involved could service additional credits on a loan basis. The British

line of credit, expected to last until 1951, was largely exhausted by the end of August 1947.

The unavailability of private financing made it clear that, if the remaining dollar needs of Europe were to be met, they would have to be met directly by the United States Government. Accordingly, the logical and necessary bulwarks to the Export-Import Bank reconstruction credits and the British lines of credits were the interim aid grants to France, Italy, and Austria, in the winter of 1947 and the ECA grants and loans now being utilized. The emergence of the European Recovery Program reflected the conviction of the Executive Branch and Congress that the remaining postwar dollar-aid requirements might extend over a further 4-year period, might amount to as much as $17,000,000,000 and would have to be met largely on a grant rather than a loan basis.

Despite the fact that further United States aid to Europe will be large on a grant basis, the long-term dollar loan obligations of the countries participating in the post-war European Recovery Program may now aggregate about $12,000,000,000.

Long-term dollar lending of this magnitude will mean average annual service charges of approximately three-fourths of a $1,000,000,000 throughout most of the 1950's and 1960's.

This creates a major policy problem for the United States. From the standpoint of the borrowing countries, it means that they will have to develop a surplus on current account over and above their essential requirements in the U.S. of approximately the same amount to meet the service charges, unless this country provides them with the necessary dollars through extended private lending and direct investments abroad on a corresponding scale. From the standpoint of this country, it means that, unless borrowing countries can develop such a current surplus or attract adequate capital they will either have to restrict payment on their obligations to us or drastically curtail their future imports from this country.

I find it hard to believe that many Americans would consciously favor sacrificing our export interests, or encouraging an indefinite continuance of foreign aid with little prospect of eventual repayment, merely to curtail an increased flow of imports into this country. The only real hope I see for future normal world trade, the reestablishment of an effective multilateral trading system, and the long-run solution of the dollar repayment problem, lies in the expansion of this country's foreign trade, on both the import and the export side, and the eventual development of the import surplus which is normal for a matured industrial economy.

There are several factors which will tend to increase our 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 prewar levels. In any event, it seems very likely that this will turn out to be a highly important source of 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, zinc, iron ore and scrap 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 continuing high national income here and progressive recovery abroad. Moreover, our expanding population will consume larger quantities of goods which are not produced here at all or not in adequate quantities.

Overseas trade, because of its romantic and pioneering character, 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 achievements of the American way of life. This trade may be small percentage-wise. It may be only 5, or 7, or 9 percent of our total -- but it is my conviction that it contributes to maintaining a rising living standard with a minimum of unemployment and without it there is the possibility of substantial unemployment with less production of goods and a lower standard of living. The American productive machine depends in part on the reestablishment and development of sound two-way foreign trade. It is obvious that at the present time trade exists only on an artificial, subsidized basis, and that our endeavors should be directed toward the reduction of extraordinary governmental assistance and greater reliance on the private capital market for foreign capital requirements.

The United States is the greatest economic power in the world today and the great creditor nation. The goal of our foreign-aid programs is a self-supporting Europe by 1952, but let us not forget that our world position will require us to continue to invest heavily abroad for a long time to come and to import goods and services in larger amount as the return on our capital investment. I hope this investment

will be private and not governmental, but again let us have no misunderstanding of its vital necessity. Investment of European funds was the keystone in the arch of the expanding world-trade pattern in the Nineteenth Century, and investment of United States funds must now take over this role to make possible that expansion of production here and abroad which will assure rising standards of living and contribute to the economic improvement of underdeveloped countries.

The Office of International Finance in the Treasury advises the Secretary on the formulation and execution of programs and policies in the international financial and monetary field. In doing this, its purpose is to see that each dollar spent in our foreign financial activities is expended wisely and to promote policies which will ultimately reduce the strain on our own budget. The advice and criticism of groups such as this will always be welcome and it is my hope to hear from many of you from time to time as to any suggestions you may have toward furthering this objective.

While many of the activities of my office are technical, nevertheless, its broad operations implement the objectives espoused by President Truman in his Inaugural Address when he stated, "The United States is pre-eminent among the nations in the development of industrial and scientific techniques. The material resources which we can afford to use for the

assistance of other peoples are limited. But our imponderable resources in technical knowledge are constantly growing and are inexhaustible.

"I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. And, in cooperation with other nations, we should foster capital investment in areas needing development."