REMARKS BY THE HONORABLE WM. McCHESNEY MARTIN, JR., ASSISTANT SECRETARY OF THE TREASURY, AT THE FORTY-SEVENTH ANNUAL CONVENTION OF THE SAVINGS BANKS' ASSOCIATION OF CONNECTICUT
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## FOREIGN AID AND THE TREASURY

It is an honor, indeed, for me to be the guest of the Savings Banks' Association of Connecticut and have a chance to get acquainted with you. I am delighted to have this 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 problems of our fiscal and monetary policies. 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 the money 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.

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 economic 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 is more nearly self-supporting than it is at present.

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 economic aid required from the United States. It was the original hope of this Government that the emergency reconstruction process could be met entirely through loans. As we all recall, a large measure of dollar aid was rendered in 1946 and 1947 on a straight loan basis. There were 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, and that 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 line 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 post-war 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.

The United States cannot shirk its responsibilities as the greatest economic power and the greatest creditor nation in the world today. The goal of our foreign aid program is a self-sufficient Europe by 1952. While the European countries have made substantial advances under the European Recovery Program, much remains to be done if the dollar gap is to be closed and they are to be able to stand on their feet. Recent adjustments in exchange rates should help many of these countries to improve their dollar position and to move toward a higher level of trade in both directions. However, this action does not constitute a cure-all for the difficult and complex problems currently faced in international payments. Exchange adjustment is but one step, albeit a most important one, which helps to clear the way by removing some obstacles to the effective and fluid functioning of a world price system in accordance with free enterprise incentives.

Foreign countries have been spending $12 billion a year in our market and have been exporting about $6 to $6-1/2 billion of goods a year to us. It is clear that they cannot continue to sustain their current level of imports from us unless they can earn more dollars by increasing their exports of goods and services to the dollar area. If--as is to be hoped--the volume of imports into the United States increases significantly, whether as a result of devaluation or simply because foreign countries increase their sales efforts in this market, it is possible that a few industries will ask for the raising of our tariff rates. I would like to ask you to consider this question in the broadest possible perspective from the point of view of the long term interest of the economy as a whole.

We are faced with a very serious problem in attempting to restore international trade to a satisfactory balance. We cannot maintain our exports at a high and our imports at a low level indefinitely without continuing to finance the gap with funds provided by the American taxpayer. If Europe is to be self-sufficient, we must allow the European countries to earn the dollars they need to pay for the American goods and services which are essential to their economies if they are to avoid social unrest and political instability. Trade will sooner or later have to go back on a more self-balancing basis.

But this is not all. Our own position will require us to continue to invest heavily abroad for a long time to come. Investment of European funds was the keystone of expanding world trade in the 19th century, and investment of U. S. funds--I hope primarily on a private basis--must now take over this role in order to make possible that expansion of production here and abroad which will assure rising living standards and economic progress in under-developed areas. It is a role which creates a major policy issue for the United States. For while such investment will undoubtedly mitigate the dollar pressure on foreign countries in the near future, eventually we will have to be prepared to import goods and services in larger amount as the return on our capital investments. As their service charges fall due on past and future investments, borrowing countries will have to develop a surplus on current account over and above their essential requirements in the United States; otherwise, they will either have to restrict payment on their obligations to us or drastically curtail their future imports from this country.

Fortunately, there are several long-run factors which will tend to increase our imports of goods and services:

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 American tourists will turn out to be an even more important source of dollars for foreign countries than in the past.

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.

The only real hope I see for future normal world trade, the re-establishment of a functioning multilateral trading system with exchange convertibility, and the long run solution of the dollar repayment problem, lies in the expansion of our foreign trade, on both the import and export side, the expansion of our foreign investments, and the eventual development of the import surplus which is normal for a matured industrial economy.

Therefore, I find it hard to believe that many Americans would consciously favor not only sacrificing our vital export interests but also encouraging an indefinite continuance of foreign aid with little prospect of eventual repayment, merely to curtail an increased inflow of imports into this country. A sustained low volume of imports and the consequent worsening of the dollar position of the European countries would inevitably involve an increase in unemployment as a result of our falling exports. It would involve greater difficulties for foreign countries in their efforts to reduce their dependence on economic aid from the United States. It would involve impeding the processes by which our investors can receive the yield on their investments abroad through the normal movement of goods to the United States market. The net upshot of such a restrictionist policy would be a long-term drain on our national income and our Federal budget with no _quid pro quo_ to show for it, along with the very real danger of increasing economic instability and tension throughout the democratic world.

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, no less than in our domestic production, that the U. S. opportunity lies to demonstrate to the world the achievements of the American way of life. In the light of the brilliant record of American industry for initiative, inventiveness and efficiency, I think we need never worry about our being able to compete on fair and mutually advantageous terms not only in the domestic market but also in the markets of the world. I feel strongly that the United States has much more to gain than to lose by the relaxation of existing barriers to international trade, and that conversely any action on our part designed to raise such barriers would entail substantial net loss to our economy as a whole. It is no less to our interest than to the interest of our economic neighbors in this hemisphere and across the seas that we work out and promote ways and means of sharing the special talents, skills and resources the nations separately possess.

Our foreign trade seems small percentage-wise. It may be only 5%, or 7%, or 9% of our total--but it is my conviction that it is a crucial segment of our economy which makes a decisive contribution to maintaining a rising living standard with a minimum of unemployment, and that without it there is a real possibility of a smaller national income with substantial unemployment and a lower standard of living. The American productive machine depends in part on the re-establishment and development of sound two-way foreign trade. It is obvious that foreign trade at the present time still to a large extent exists on an artificial, government-financed basis, and that our endeavors should be directed toward the expansion of international trade within the framework of a reduction of extraordinary governmental assistance and of greater reliance on the private capital market for foreign capital requirements.