

PLACE OF THE UNITED STATES IN THE POST-WAR ECONOMY

REPORT BY THE
ECONOMIC POLICY COMMISSION
AMERICAN BANKERS ASSOCIATION

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THE UNITED STATES
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American Bankers Association

ECONOMIC POLICY COMMISSION

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Place of the United States in the Post-War Economy

Spokesmen for all parties, all faiths, and all parts of this country are today saying in chorus that after this war we cannot back away from international responsibilities as we did after World War I. Both Houses of Congress have been considering resolutions giving expression to this thesis. The Administration states it in many forms. The principle is accepted.

But principles mean many things to many people. Differences—deep cleavages—arise when they are embodied in definite plans and programs. Even the principles will seem quite different and less compelling when the war is over, when we turn with relief to the pursuits of peace. We cannot safely assume that the principle of collaboration will survive this testing period. We may indeed repeat the mistakes of the '20s and '30s. The normal human emotional reaction leads that way, and politics makes capital of such reactions.

A first suggestion for avoiding this tragic blunder is that we should make plans now, while the spirit is on us, for putting into effect the principles for which we fight. It is easy to say that we do not know how or when the war will end, or what kind of world will be left. We do not of course know in detail but we do in substance. The problems in the main will be like those after World War I—problems of security, of trade, of money, changed in form but in essence the same old problems of nations getting along together. The fashions in thinking about them change more than the problems themselves. When the peace comes rushing on us we shall be better off with plans that have to be changed than with no plans.

A second suggestion is that groups of citizens accept these broader problems as their own, study them now, and be ready to throw their influence for a continuing sane foreign policy. Bankers especially have such responsibility. By the

nature of their occupations they have some understanding of these subjects and unusual opportunity for leadership in their communities. It is the informed opinion of such groups in the support of wise government action which may make it possible to avoid in future some of the errors for which we are now paying in "blood, sweat and tears."

This report is a preliminary brief survey of practical objectives for the post-war economic world, and this country's place in it.

Releasing the Forces of Recovery

In the avalanche of literature on the subject of world economic recovery two general points of view reveal themselves.

The first may be called the idealistic approach. Those who consciously or unconsciously hold this viewpoint see the world shattered into a thousand pieces and believe it is our task to put it together again piece by piece, but on a greatly improved pattern. For example, it is suggested that we must see to it that other countries are placed under what we regard as democratic government, and that the standard of living of all peoples is raised and the differentials between theirs and ours reduced.

These are appealing objectives but one may question their helpfulness as practical directives for our post-war efforts. Apart from the enormously complicated problems of human relations, even the vast resources of the United States, the British Empire, the Soviet Union, and China, which would presumably share this duty with us, are inadequate for these purposes. Recent reports from Puerto Rico indicate that in this our own insular possession, where we have had a reasonably free hand for nearly half a century, the standard of living is shockingly low, partly because the progress of civilization has cut the death rate while the high birth rate goes on as of old.

Perhaps, after all, we are not yet strong enough nor wise enough to reform the world immediately.

The other kind of approach to this problem, and one that seems to be more realistic, assumes that potential forces exist even today within each country for its reconstruction, and that what is most needed is to release these powerful affirmative forces. The farmer wants to till the soil, the artisan wants to fashion shoes or clothes or machines, the trader wants to trade. In every country there are groups of able and energetic men and women ready to restore the normal ways of life and add to its richness. What they need is not philanthropy but opportunity. No people and no nation can be handed a better life. They have to work it out for themselves.

From this point of view, the key to post-war economic revival is the elimination of obstacles to the initiative and enterprise through which alone the better life people everywhere desire can be achieved. Such a program is no denial of longer term ideals and objectives. It is, in fact, the most effective step towards them.

Any list of these obstacles is more or less arbitrary but it is proposed here to discuss seven essential points at which the strategy of recovery may well be directed.

1. Relief

Refugees from Europe report that the most discussed subject is not the war but food—where the next meal is coming from. When fighting ceases, the first need will be food; lack of it will be the greatest obstacle to progress on every front. The shortage need not last long, for even the next crop, not stolen by the Axis, will bring substantial relief. Some countries have funds abroad to buy food. But the first essential is that food be supplied in one way or another. For that purpose lend-lease by the United States, by England and the British dominions, perhaps shared in by Latin American countries, will need to be continued for some months after

the end of war. To do this, however, will require control of consumption and stimulation of production. The problem of food relief is not merely one of finance but of having the food to ship.

With the food itself will be needed seed and farm tools to replace those destroyed and some minimum of simple industrial machinery and raw materials. Beyond this minimum Europe can better produce many things with her own resources and thus start the wheels of trade moving. As to removal of this first obstacle to recovery little serious difference of opinion seems likely. In the official summary of the results of the United Nations Food Conference, it was generally agreed that in the period immediately after the war "the first call will be to reach freedom from hunger in areas devastated by the war," with emphasis at first upon cereals and other foods which maintain human energy and satisfy hunger. It was agreed that while shortages lasted there should be coordinated action by governments both to secure increased production and to prevent speculative and violent fluctuations in prices.

Already a United Nations relief organization is being created. Herbert H. Lehman, former Governor of the State of New York, who heads the American participation, stated the objectives as follows:

The idea behind the Office of Foreign Relief and Rehabilitation is to help people to help themselves. When we have assisted the people of a freed country to get a crop into the ground we have taken the most important forward step.

We will supply seeds and farm implements and in some cases raw materials to get factories running again. When that has been done many countries will be ready in a short time, we expect, to solve their own long-range problems.

2. Prompt Peace

Some months ago the suggestion was made for a long armistice or cooling-off period before peace terms were finally settled, to avoid the danger of embodying hate and passion

in those terms. The logic of this suggestion is understandable, and people are rightly concerned lest settlements made under the emotional stress of war lead to the terrible tragedy of an unworkable and vengeful peace. A sound and just peace is an indispensable first step to a better post-war world.

Notwithstanding all this, public discussion has exposed the weaknesses of the cooling-off period. Until the principal peace terms are determined trade both external and internal will be stagnant in the countries most vitally concerned. No one can go forward courageously with enterprise until at least the basic outlines of the peace are settled.

The experience after World War I illustrated this difficulty. The United States ratified a treaty only in 1922, and then only half a one. The reparations question was only partly settled by the Dawes Plan in 1924 and not wholly settled by the Young Plan in 1929. Meantime in a depressed Europe were sown the seeds of despair and Hitlerism.

Today there is growing a conviction that the general terms of peace should be agreed upon by the United Nations and imposed immediately hostilities cease. The advance determination of reasonable peace essentials may have the added advantage of telling the Axis peoples what to expect and thus encouraging them to overthrow their present leaders.

In addition to the main peace essentials there will remain many questions which cannot be resolved immediately, such as ascertaining the true ownership of property, forms of restitution, etc. These can perhaps best be dealt with later by commissions. But the basic terms of peace, including boundaries, should be formulated and put into force promptly.

From the point of view of economic recovery the point is that the men and women trying to restore their countries' industry, agriculture, and trade would be retarded by uncertainties—if peace terms were unsettled. Their task will be hard enough and they must be aided by reducing the areas of doubt and uncertainty—and increasing the number of

verities on which they can count, and on which they can base action.

Admittedly all of this is far from easy. Peace terms must be negotiated in the last analysis by the chiefs of state of the United Nations whose energies are absorbed in the direct war effort. But agreement on the kind of peace may help to win the war, as it affects the attitude and morale of all the belligerents. Political decisions made during the war are not merely preparatory but are part of both the war and the peace. Already the declarations of the Atlantic Charter and the North African conference have begun the definition of peace. This is the kind of preparation, carried into greater detail and more definite form and agreement, which is essential to winning a prompt peace.

3. Collective Security

For many years of its history Europe has lived in the shadow of war. In such shadow, enterprise does not flourish; the standard of living is held back. Nations spend for war and armaments what might go for the people's comfort and enlightenment. Enterprise must confine itself to short run transactions and cannot boldly plan and venture the long term project. The risk is too great.

The world has known long periods of peace. The Pax Romana was one, enforced by the legions of Rome. More recently the period from the fall of Napoleon to the World War has been termed the Pax Britannica. It is too sweeping a phrase, for there were serious wars. But even so a balance of power in Europe, the British fleet, and the persistence in neutrality by small countries, did give the term some justification. We know that this second period was one of great progress, in which the lot of the average man in Europe and America improved more than in many earlier centuries.

The idea of established and secure peace, not through the dominance of a single power, or a balance of power, but an

association of powers has been nurtured by many minds. Tennyson wrote of the "Parliament of Man, the Federation of the World." John Fiske, the great American historian, of the "American Political Idea," the federation of states to secure peace.

When President Wilson launched his proposal for a League of Nations he did so with the support of a group of able and respected Americans. The charter was drawn before the war was won. It was accepted, perhaps somewhat reluctantly, by the other allied nations but just failed of ratification by the United States Senate together with the treaty of Versailles and the pledge of joint security with France and England.

Some great statesmen strove to make the League work: Briand, Stresemann, Smuts, Cecil, Benes, and Litvinoff. The handicap of non-participation by the United States, the failure of others to support its decisions, together with some inherent defects in the League structure, were too great to overcome.

Today there is general agreement in this country that there must be, at the conclusion of the war, mechanisms and guarantees to prevent war. As yet this sentiment has not crystallized in specific forms. The principal move in this direction beyond the Atlantic Charter and the United Nations' Declaration of January, 1942, has been the Mutual Aid Agreements which have been concluded by the United States with the United Kingdom, China, Russia, Belgium, Poland, the Netherlands, Czechoslovakia, Greece, Norway, and Yugoslavia. While these Agreements lay down the principles applying to mutual aid in the prosecution of peace as well as war, they provide no specific commitments or mechanisms.

Two things seem clear. First, that there must be an international organization or organizations of some sort for the consideration of international problems, and, second, that the United Nations must commit themselves to placing their force back of the essential decisions for peace.

It is not proposed here to make a detailed recommendation on this point but simply to emphasize that such a guarantee of peace in our time is a necessary basis for full economic recovery. The risks of war blocks long term economic planning and enterprise. Peace is even more essential for prosperity than prosperity is for peace.

4. Monetary Stability

Ranking close to the hazard of war as an obstacle to human material progress is the changing value of money. When there is question about the value of money, trade is disorganized, dormant, or feverish, as in Germany and Central Europe after the last war and in France during the monetary troubles of the '20s and '30s. Especially is the advance planning on which a high level of employment so largely depends blocked by doubt of the value of money. The depression of the middle '30s certainly owed some of its severity to fears about money—about its gold value and about the goodness of bank deposits. Money and enterprise grew timid and went into hiding together.

The period of "Pax Britannica" was also a period of stable money when the pound, and for most of the time the dollar, were firmly anchored to and freely exchangeable for a given amount of gold. It was one of the sources of the great material progress of that period.

In the welter of uncertainties which will surround us after the war it is essential, as has been said before, to reduce the areas of doubt, to fix the points of the compass. Only so can the people who want to plan, who want to trade, who want to provide work, go ahead with assurance. Currency value is one of the factors basic to decisions in business and government transactions.

The necessity for currency stability is again being widely recognized, but it will be hard to achieve. Many countries will be impoverished and in disorder, with seriously dis-

turbed balances of foreign payments. Many already are far along the road of internal inflation. Old trade channels will be disrupted. Many countries will lack adequate reserves of gold and foreign exchange. For practically all, the problem of finding rates of exchange that truly reflect the internal purchasing power of different currencies will be a perplexing one. Wrong rates would invite serious difficulties as proved true after World War I.

The rate question cannot be settled alone. It goes along with all the other problems of peace and war and trade barriers reviewed here. No country can assuredly maintain a stable currency unless its internal economy is in order—its budget under control, its price level reasonably stable, and its external payments and receipts well balanced. A stable currency is a logical result of a sound economy and cannot exist long in its absence.

The basic requirements for stabilization are twofold in character. The first concerns the general political and economic background. The second is the more technical question of international monetary arrangements.

It is in the second area that recent proposals have been made for the establishment of an international institution. In April of this year both the American and British Treasuries made public tentative programs for currency stabilization known as the White and Keynes plans.* On August 20 the American Treasury made public a revised version of its experts' plan. Both Governments have wisely refrained from rigid and premature adherence to any particular formula and have invited discussion.

Both plans contemplate the setting up of an international agency—the White plan, an actual fund of gold, foreign exchange and securities; the Keynes plan, a "clearing union,"

* On June 9 the Canadian Finance Minister, Hon. James L. Hsley, likewise made public tentative proposals of Canadian experts for a post-war currency stabilization plan which incorporated many of the features of the White and Keynes plans.

to begin at least without capital assets. Management of the credit agency would be vested by both plans in a governing board with broad powers. Under both plans member countries would be encouraged and aided in fixing their currencies. Once values are fixed, members could not alter their exchange rates without the approval of the governing board, except by small changes under certain circumstances.

Under both plans countries running behind in their balance of payments could borrow other currencies. Countries borrowing from the agency in excess of specified limitations would be required to carry out measures recommended by the board to bring their exchanges into balance. Such measures, it is stated specifically by the Keynes plan, might include a devaluation of currency, control over capital movements, or even such domestic measures as the board deems appropriate.

The White plan in its original form would charge the exchange fund with the purchase and liquidation of the large volume of international balances frozen by the war, essentially a long-term operation. In the revised plan there remains a provision for taking over a part of these balances. The Keynes plan apparently would permit large credit extensions for indefinite periods at nominal rates.

Each plan would provide for the compilation and exchange of information as to foreign balances and the flow of funds and trade.

The Keynes proposal is the more ambitious of the two, and the provisions for making loans would set up vast and highly inflationary credit facilities in a world which will be trying to counteract the inflationary influences created by war. The effect would be particularly inflationary in the United States both by causing an expansion of Federal Reserve credit to the extent other countries borrowed dollars, and by creating large demands for our products at a time when goods are scarce, and the country is trying to meet the wants of its own people. The White plan would apparently involve less

danger in this respect in that the sums available would be much smaller and based on member contributions to a central fund, and provisions for lending appear to be more safeguarded.

Conversations between representatives of different governments have been going on. While these plans are under discussion it would be premature to draw final conclusions about them. There are, however, certain principles which have been clarified by the discussion up to this point.

These are, first, that some international institution is desirable: to help nations in stabilizing their currencies; to provide a meeting place for the discussion of monetary questions; to collect information which is a necessary basis for sound decisions; and to make some arrangements for stabilization credits in cases where they are justified, or for temporary seasonal or emergency credits with provisions for early liquidation. The experience with the Bank for International Settlements showed to those who studied its operations the value of such an institution. On a more modest scale the Tripartite Agreement was another encouraging example of the possibility and value of consultation. Whether the needs of the situation would be met best by modifications in the structure of the Bank for International Settlements or by the establishment of a new institution is a question which should be fully explored. Speaking generally, there is much to be said for building upon machinery which already exists.

The second essential point is that institutions of this sort are no substitute for the hard, patient labor of reestablishing the economic soundness of participating countries, of the balancing of budgets, and readjustments to post-war conditions. Especially important is the economic condition of the key countries, the United States and England. To extend this sort of credit before sound economic programs are established would invite failure and loss. In their present form neither of these plans gives adequate recognition to this

truth. Clearly there must be a sharper distinction between operations in the period when economic adjustments are in process and the later period of more nearly normal conditions. The short term banking credits appropriate for such an institution are not the kind required for early post-war reconstruction.

A third point relates to the general scale and scope of the operations of such an institution. President Dodds of Princeton has recently suggested that any international organization "must not attempt to frame a super-government so new and unfamiliar that men will not be prepared to participate in it." The Keynes plan clearly violates this principle; the White plan also is open to that objection in its present form both with respect to the amount of money the United States would be asked to put in and the extent to which we and other countries would surrender freedom of action in monetary policy. The principle of limitation of power is especially applicable to an institution whose board might represent a few creditor countries and many debtor countries.

The success of such an institution will depend not on the extent of its legal powers, but on the support given it by key countries. It was not so much lack of power that crippled the League of Nations, but lack of support. The British Commonwealth of Nations has no constitution and no legal powers. It is tied together by enlightened loyalty. Implications of compulsion and broad controls, regardless of how carefully veiled they may be, are not suitably unifying factors in international monetary matters. Free collaboration based on mutual advantages and built up by persuasion and friendly relationships offers the most promising approach.

Fourth. Credits granted by such an agency should be extended in accordance with proven standards, based on the merits of the individual case, and conditioned on adequate commitments by the debtor. They should be temporary in nature and made at a fair rate of interest. A system of quotas or shares in a pool which gives debtor countries the impres-

sion that they have a *right* to credits up to some amount is unsound in principle, and raises hopes that cannot be realized. Such a system would encourage the impression that credits received may not have to be liquidated, and would invite abuses of the facilities. Any formula which attempts to determine in advance the credit needs and credit worthiness of each country is impracticable.

It is to be hoped that general public discussion of the two plans will lead to fundamental modifications of the proposals in order to conform with the foregoing principles or will result in some alternative procedure for attaining the results so desirable for all.

In concluding this section it seems wise to emphasize again the fact that no institution no matter how well designed can work miracles — an illusion too often cherished. Basically stable money is possible only with stable national economies. Towards this goal the United States must lead the way. The first requisite for any genuine progress towards stabilization is a stable dollar free of all exchange restrictions, a dollar in which the world has full confidence. Regardless of the standards adopted, or the organization set up, some strong currency must in fact be the main steadying influence. So far as can now be foreseen the foundation currency must be the dollar.

The second step should be to establish definite rates between the dollar and the pound sterling — the two currencies in which the major part of world trade has been conducted for the past century. This step involves the whole problem of the reestablishment of the British monetary and trade position on a sound basis. We must assist in the solution of this problem if currency stability is to be achieved promptly. It is probably wiser to grapple frankly and directly with this question rather than merging and partly concealing it in a general international plan.

Once the values of the dollar and the pound are determined others will follow, for certain currencies are now

stable in relation to the dollar or the pound, and other countries could gradually make the necessary adjustments. Where financial aid is needed it should be granted only after due consideration of the merits in each individual case. Each country must of necessity work out its monetary salvation largely by its own efforts. It cannot shift responsibility. In this process the presence of an institution as a mechanism to encourage consultation would be useful, but its function as a lender of money can only properly begin when a sound economic program has been put into effect.

Furthermore, it should again be emphasized that the United States cannot successfully promote international monetary stability without making determined efforts to put its own affairs in order by balancing its budget and checking inflationary influences. If our fiscal policies in time of peace continue to rest on the principle of deficit financing, all efforts to maintain international monetary stability will inevitably fail. Confidence in the dollar would be further enhanced by a clear cut policy making the dollar redeemable in gold, in foreign trade, with no deviation from the present value.

5. Lower Trade Barriers

It is often hard for citizens of the United States to realize the meaning of foreign trade for the world as a whole. Export trade for us is less than 10 per cent of the country's total output. But overall figures are misleading as to the influence with respect to certain commodities in certain areas. Cotton exports from Southern States have often made the difference between prosperity and depression in those states. For certain manufacturing industries such as office appliances, sewing machines, and agricultural implements, foreign markets have likewise furnished important outlets. Imports, on the other hand, supplied us with many necessities as well as luxuries. In some cases—for example, certain specialties from

Japan—imports have spelled trouble for a limited number of manufacturers. The American consumer pays a higher price for a number of articles because of high protective duties. In these specific ways we feel changes in trade and trade barriers.

But for many if not for most other countries foreign trade fills a much larger role. The following table indicates the estimated relation of export trade to total production of a number of countries:

**RELATION OF EXPORTS TO TOTAL PRODUCTION
OF DIFFERENT COUNTRIES**
(Based on 1937-38-39 figures)

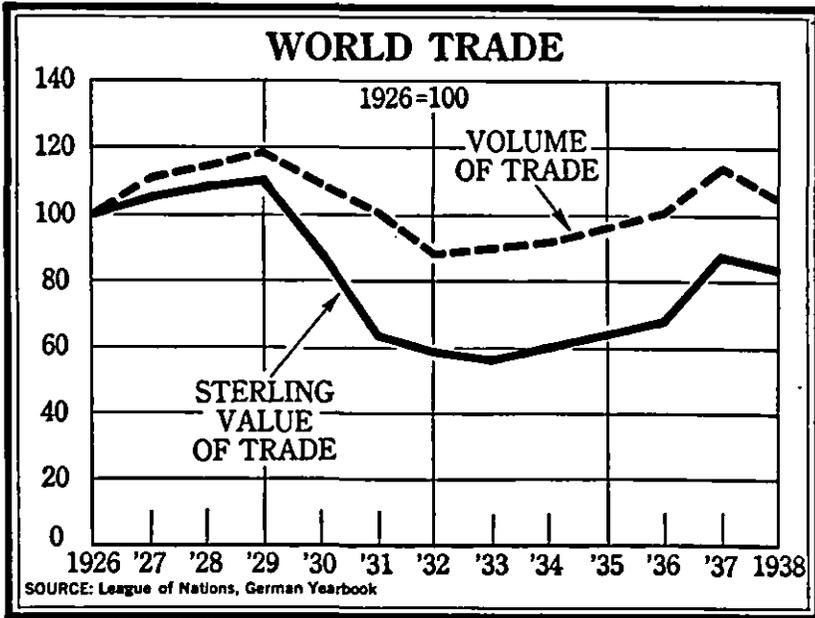
(IN MILLIONS OF DOLLARS)

	Production	Exports	Per Cent
1 United States	45,630	3,190	6.9
2 Great Britain	11,800	2,380	20.1
3 Canada	2,700	1,040	38.5
4 New Zealand	520	230	44.2
5 Argentina	1,380	505	36.5
6 Brazil	1,740	350	20.0
7 Chile	470	160	34.0
8 Cuba	316	160	50.7
9 India	7,700	600	7.8
10 Japan	4,750	910	19.1
11 Malaya	320	240	75.0
12 Sweden	2,040	480	23.5
13 Belgium	2,250	810	36.0
14 Hungary	790	110	13.9
15 France	9,000	940	10.4
16 Denmark	1,100	330	30.0

Compiled from various official sources.

Some of these countries are very largely dependent on the export of a few commodities: Argentina on grains and meat products, Cuba on sugar, Chile on copper and nitrates, New Zealand on wool and dairy products. Fluctuations in these exports or in their prices may spell the difference between distress or prosperity. Similarly many countries rely largely for their standard of living on imported goods. These changes can be causes of peace and war—they are so vital.

Certainly one of the causes of the disordered internal condition of many countries in the '30s was the disorder of world trade, reflected in the accompanying diagram:



The United States had a substantial share in this trade disorder, since the value of our purchases fell greatly, as the next table shows. For us these changes were fractional in relation to our total business. For the exporting countries they were often disastrous.

These are illustrations of the place which a broad flow of trade can take in world prosperity and in peace between nations. They exemplify also what may be the effect of trade changes and policies of the United States. Through the complex structure of world trade the United States lumbers like a well meaning but often destructive giant.

We may distinguish two kinds of causes of trade disorders. One is cyclical—the changes which result from swings of the business cycle, such as those of 1932. These will be discussed

VALUE OF PRINCIPAL COMMODITIES IMPORTED
INTO THE UNITED STATES IN 1929 AND 1932

(IN MILLIONS OF DOLLARS)

	1929	1932	Per Cent Decline
Silk, raw	427	114	73%
Coffee	302	137	55
Rubber, crude	241	33	86
Sugar	209	97	54
Paper and manufactures.....	163	94	42
Hides and skins.....	137	22	84
Wood pulp and pulp woods.....	103	52	50
Burlap and jute.....	95	22	77
Tin	92	16	83
Wool, raw	87	6	93
Oilseeds	79	16	80
Cocoa beans	49	20	59
Flax, hemp and manufactures.....	49	21	57
Cocanut and palm oil.....	47	14	70
Nitrate	35	1	97
Total.....	2,115	665	69

Source: Statistical Abstract of the U. S.

later. The other is legal restrictions of tariffs, quotas, and clearing arrangements or other prohibitions and restraints. One of the worst and most arbitrary of these trade barriers is fluctuations in currency values which on one side may be the equivalent of imposing a high tariff duty. The number of devices for trade limitation grew apace in the period between the two wars. Each new restriction by one country led to new action by others. It was a vicious circle in which in order to safeguard its own production each country sought protection from the goods of others.

The argument from the American point of view for freeing trade from these shackles has been effectively stated by Secretary Hull:

There is a direct and unmistakable connection between business activity and the volume of exports. Our Cotton Belt, our Tobacco Belt, our Wheat Belt, our corn-hog industry,

our fruit and vegetable growers, our lumber producers, our machine manufacturers and many other branches of our production cannot prosper unless they have adequate foreign markets for their surplus output. Deprive them of such markets, and their purchasing power shrinks, and with it the whole nation's purchasing power declines. . . .

The experience of the two decades which elapsed between the end of the World War and the outbreak of a new war in Europe has brought out in sharp relief the validity of two basic propositions. The first of these is that our nation, and every nation, can enjoy sustained prosperity only in a world which is at peace.

The second is that a peaceful world is possible only when there exists for it a solid economic foundation, an indispensable part of which is active and mutually beneficial trade among the nations.

Secretary Hull has also promoted a means by which the country may play its part in a gradual reduction of the most difficult trade barriers, in the form of reciprocal trade agreements. Under this mechanism tariff negotiations are removed one step from the political bargains which usually mean steadily rising tariffs, but the administration of the Act has been periodically examined in considerable detail by Congress with a view to satisfying itself that there have been no injustices or undue hardship.

The United States has concluded agreements with twenty-seven foreign countries. These countries, in the order in which the agreements were signed, are: Cuba, Brazil, Belgium and Luxemburg, Haiti, Sweden, Colombia, Canada, Honduras, the Netherlands, Switzerland, Nicaragua,* Guatemala, France, Finland, Costa Rica, El Salvador, Czechoslovakia,** Ecuador, the United Kingdom of Great Britain and Northern Ireland, Turkey, Venezuela, Argentina, Peru, Uruguay, Mexico, and Iran.

About 65 per cent of the total foreign trade of the United

* The reciprocal duty concessions and certain provisions of this agreement ceased to be effective March 10, 1938.

** The operation of this agreement was suspended April 22, 1939.

States is carried on with the countries with which reciprocal trade agreements have been concluded.

The mechanism has thus been thoroughly tried. No revolutionary changes in this country's tariffs have been produced, but in many important respects the interchange of commodities with other countries has been made easier, and—perhaps more important still—the long trend towards more and higher tariffs has been stopped.

In dealing with tariffs one point to remember is that particular groups who feel themselves penalized are more articulate than the consumers who reap the broad benefits of tariff easements, or even than the producer who gains through the relaxation of trade barriers abroad.

Apart from the Hull reciprocal trade agreement policy there is no outstanding single movement here or abroad towards freer trade. It is rather a matter of constant study, of constant alertness, and the use of every opportunity to negotiate reduction in impediments to trade. These impediments may of course exist in the form of monopolies and other private regulatory agreements as well as in the field of government controls.

In the effort to break down trade barriers we shall encounter conditions under which some countries must restrict their imports to conserve their supplies of foreign exchange, and so be able to maintain a sound balance of payments. It may be that additional markets can somewhere be opened up for the products of some such countries. It may be new export products can be found. War-time changes in production will greatly affect the picture. For example, the United States may import less rubber and silk after the war, but a threatened exhaustion of oil and certain other mineral resources in this country may lead to increased imports in these latter categories, and there will be many other shifts in the channels and types of trade between markets.

The freeing of trade and thereby increasing its volume can be greatly aided by consistent effort by men of good will.

It is possible that international organizations for conducting such studies and assisting in negotiations would be found feasible and helpful.

6. Reducing the Swings of the Trade Cycle

In the previous section figures were given showing the wide variation in the volume of imports into the United States of certain raw materials at different periods of the business cycle. In countries where a single export is a large part of their livelihood the effects of such variations are severe. It is difficult for any country to adjust itself to such blows, especially when the prices fall as volume of export diminishes, and credit becomes less freely available.

The trade or business cycle is a long-familiar phenomenon. Its swings have recently been more severe in the United States than in most other countries and in general more severe since World War I than before. When such swings bring depressions like 1921 and 1932 they become major problems both for domestic and foreign policy. The point to be made here is simply that huge swings of the cycle, with their great booms and great depressions, are as damaging to the maintenance of a sound structure of world trade as they are to any domestic economy. When aggravated they become one of the obstacles which impede enterprise and progress all over the world. For where there is great measure of unemployment and uncertainty, countries are far more likely to shirk political obligations—no matter how wise and essential—and to be shortsighted and indifferent in their economic dealings with other countries. On the other hand, if men and women find it relatively easy to have work and feel relatively secure in their employment, it is easier to negotiate the necessary international political arrangements and bring countries together in a many-sided cooperative economic effort.

Although these trade cycle swings may lie so deep in the vagaries of human psychology that they can never be eradicated, it should not be beyond our ingenuity to temper their destructiveness.

7. Making Credit and Capital Available

Enterprise is held back in many parts of the world by lack of funds. The record makes it clear that improvement in the standard of living has taken place where and when capital, in the form of machinery and equipment, multiplies the fruits of man's labors. But—and here is the great question mark—capital to be productive must be wisely used, and investment calls for an investor as well as an opportunity for investment.

The hasty answer that many are making today—"let the government do it"—needs consideration and analysis. There is grave doubt whether the American people after this war, saddled with a huge debt, will be ready to approve government lending of large sums of money in various parts of the world to improve backward areas.

Thus we should examine also the private resources available for such use. Despite all the uncertainties of the period between wars a very substantial amount of trade has been financed privately. British and American banks have been prepared to finance essential trade movements. Such short-term credit has been freely available for the needs of genuine trade where the buyer of the goods could pay when the goods reached his hands. The banks have made losses as well as profits, and have learned "how not to" as well as "how to." This kind of short-term private credit will continue to be available promptly and in ample amounts.

Another kind of funds has also been available in fair amounts. American and other business concerns, even during

this difficult period, have put substantial amounts of capital into foreign countries where the opportunity was promising and where they could stay with their undertakings and see that the capital was productively used. If the steps outlined previously in this report are taken more funds of this sort will be available.

There are dangers that attend the flow of business funds abroad that arise from deep-seated political reactions. A powerful foreign interest in any country is a natural target for the politician who finds a popular response to the cry that the foreign corporation is exploiting the country. The consequences are discriminatory taxes and regulations and restrictions as to who can be employed and how, how much profits can be exported, etc., etc. Occasionally the political feeling goes to the point of expropriation as in the case of the oil companies in Mexico. Such treatment does not encourage foreign investment. On the other side, corporations have at times obtained special favors and a privileged status which in the long run is bound to arouse hostility.

The net of it is that a much larger flow of American, British, and other capital will go to all parts of the world if conditions are made attractive. American business is prepared to go with its capital, to provide know-how as well as funds, and as fully as possible to work with the people of other countries. One method of financing that has been notably successful in certain instances is the joint ownership method, where an important share of the capital is raised locally.

The problem is not so much supplying a new mechanism as removing obstacles which hold back foreign investment. "It is often argued," states a report on the Transition from War to Peace Economy, recently issued by the League of Nations Delegation on Economic Depressions, "that some radical change in financial mechanisms will be required, and this indeed may be true." "But," continues the report: "new financial mechanisms may well increase the intensity o

depressions later if they involve the substitution of government lending for equity or direct investment. There is a real danger, in our opinion, of attention being so concentrated on the satisfaction of immediate and pressing capital needs that subsequent effects will be ignored. To pump capital into stricken areas by the most perfect pumping mechanisms will benefit no one in the long run if the strain imposed by the reverse movement later, when amortization and interest payments exceed new lending, leads to a breakdown similar to that of 1929. It is far wiser to open every possible channel of foreign investment and to control the flow, giving preference to real investment over loans."

A significant development of recent months is a flow of private capital from this country to Mexico and to other Latin American countries where the political atmosphere of late has been more favorable. Capital is by nature adventurous and will wander far if given promising opportunities.

This does not mean that in any nearby future huge foreign loans like those of the '20s for Europe and for Latin America can be floated in New York and London. There will have to be much better assurance both as to the general condition of the world economy and as to the way the money will be used. But some foreign security issues are not impossible if even the minimum assurances can be given. Recent movements on the New York Stock Exchange show that not all venture money has disappeared.

Given a favoring atmosphere, private capital will be ready to do much of the work which needs to be done. We should not, however, dismiss wholly the need for some use of government credit. There will be situations in some countries where the conditions cannot be made wholly favorable for private capital and where funds for reconstruction or construction are badly needed and likely to be used wisely. Then some form of government credit may be desirable for both economic and political reasons. One pattern for such loans might be the loans jointly guaranteed under the League of

Nations after the last war. The experience of the Export-Import Bank illustrates another method of meeting this situation. That Bank has made commitments since the start of operations in February, 1934 to June 1, 1943 amounting to \$1,143,000,000; total disbursements have been \$396,000,000 of which \$205,000,000 have been repaid. The bulk of these commitments and disbursements have been related to inter-American trade, and most loans have been for self-liquidating projects. In most cases private funds have been used under the guaranty of the Export-Import Bank and available banking facilities have been utilized. Its loans have been made on the whole sparingly and carefully and with every effort to strike a proper bargain. Utilized in this way modest amounts of government credit may be a valuable supplement to private investment. The danger to be guarded against is that excessive government lending will drive out the private enterprise which is the best hope for continuing progress.

But whether the loans are government loans or private loans they should be good loans, with reasonable promise of repayment; and not too much. If these conditions are fulfilled a good deal of private credit will be found available. There is no use making bad loans; such loans benefit no one.

Carrying out the Program

The size and scope and almost infinite ramifications of the problems we have been discussing must be evident from the foregoing. They involve politics, economics, psychology in all sorts of combinations and degrees. How make progress in such a maze?

No single simple formula will do. Nor will any complicated and elaborate scheme. For the first essential is the understanding and agreement of many peoples. There must not only be acceptance at the start but continuous and effective support for a long period.

We can agree on some suggestions. First, these international problems must be made somebody's business. Able men, qualified by understanding and by experience in affairs, must be set to work on them. Groups of such men from different nations must meet together and discuss them. The conclusions reached by these men must also be discussed by the chiefs of state among themselves, just as Mr. Roosevelt and Mr. Churchill have discussed military plans. Some discussions have already begun in the areas of relief, of agriculture, of money. This is sound procedure.

Second, there must be established organizations engaged continuously in analyzing these difficult questions and seeking to do something about them. Fortunately we are not wholly without experience in such organizations. There are some 20 years' operations of the League of Nations, and the World Court. Central banks have been important agencies for international collaboration, both directly and through the Bank for International Settlements which has accumulated over 12 years of experience. There are other organizations like the International Chamber of Commerce, the International Institute of Agriculture, and the International Labor Office. All of these have tangible achievements to their credit.

Something of the flexibility of possible organizations is suggested in Mr. Churchill's proposal for a European Council and an Asiatic Council and for sub-organizations for smaller groups of countries. He stated this as follows in his March 21, 1943 address:

One can imagine that under a world institution embodying or representing the United Nations, and some day all nations, there should come into being a Council of Europe and a Council of Asia. . . . It would therefore seem to me at any rate worthy of patient study that side by side with the great powers there should be a number of groupings of states or confederations which would express themselves through their own chosen representatives, the whole making a council of great states and groups of states.

He further discusses the very delicate subject of the preservation of the sovereignty of states along with this joint organization:

It is my earnest hope, though I can hardly expect to see it fulfilled in my lifetime, that we shall achieve the largest common measure of the integrated life of Europe that is possible without destroying the individual characteristics and traditions of its many ancient and historic races.

In these quotations there appear the two essential principles of adaptation of international organizations to each purpose and the corresponding principle of respecting the rights, traditions, and nationalism of the participating states.

Such discussions suggest the desirability of avoiding too ambitious and too comprehensive programs, but of moving forward wherever and whenever opportunity serves, of adapting organizations to all the very human difficulties which such enterprises will encounter. The solutions can hardly be absolute and global. The words "commission" and "council" are better descriptions of the nature of organization than the word "authority."

The nature of the problem was discussed recently by Sir Norman Angel in the following terms:

This fact—that many different nations have to agree to any plan adopted—reminds us that our test of a "good" plan must not be merely that which would be best for the welfare of mankind if only nations had the political wisdom to accept it and to work it. It is well to remember the remark of Henri IV of France, who, when a certain blueprint for world peace was submitted to him, said, "It is perfect, without a blemish of any kind so far as I can see, except perhaps one—namely, that no earthly prince would ever agree to it." Democracies are just as difficult to persuade as princes, and, unhappily, just as unstable at times in their convictions.

All of which emphasizes the need for beginning now the discussion of plans and organizations and reaching some agreements among the United Nations before the day of peace arrives.

With the Tide

Lest we be discouraged by the all-too-formidable obstacles, we may well conclude by returning to the point made at the beginning of this report — that there exist in the world natural and powerful regenerative impulses capable, given encouragement and reasonable freedom to operate, of bringing about the recovery for which we strive. The problem is not the paternalistic one of dictating a reshaping of the affairs of the world; it is rather to strike off shackles to release the abundant energies of able men and women in all countries that each group may build in its own areas and with patterns of its own choosing.

The world demonstrated in the century of comparative peace between Waterloo and July 1914 what can be done when these energies are released. The industrial revolution, which transformed the lot of mankind in the western world during this period, is not over. After Europe and America, Japan discovered it—then Russia and China. Now, with the tremendous forces set in motion by the war, the speeding of communications, the opening of new areas to transportation, the development of new contacts, other countries little changed in economic status since the Middle Ages are catching the contagion. Even in highly industrialized countries like the United States the industrial revolution marches on, its pace accelerated by new miracles of scientific discovery and technological advance. Though the new methods and processes are used now for destructive purposes, they will be available for human betterment in time of peace.

Thus the current is with us. The natural impulse is forward. Our task is to unlock the gates and set free the pent up forces of enterprise, the restless urge of the people for a better life.

Summary

With sentiment of the American people overwhelmingly for the principle of collaboration with other nations in dealing with post-war problems, we need to be making plans now for putting this principle into effect. The coming of peace must not find us unprepared. Bankers, in particular, have responsibility for studying these problems and equipping themselves for leadership in their communities in support of wise policies.

The program we seek must not be too ambitious or attempt too much; grandiose plans are not likely to succeed, either of adoption or execution. Real progress must be founded upon the regenerative efforts of individual initiative and enterprise. These efforts can be aided through government cooperation and even at times by government participation, but the primary task is one of releasing the natural forces of recovery. People must be helped to help themselves.

To remove obstacles and set free the pent-up forces of enterprise calls for action towards seven essential objectives:

1. *Relief*—temporary aid in the form of food and some minimum of raw materials and tools for ravaged nations to avert starvation and help restart industry; to be supplied through some form of lend-lease.

2. *Prompt peace*—early determination of as many as possible of the main peace conditions so that governments and private individuals can make plans.

3. *Collective security*—establishment of some form of organization or guarantee to prevent war, thus lessening the fear of new conflicts, diminishing the incentive towards extreme nationalism, and avoiding the waste of resources in armament competition.

4. *Monetary stability*—collaboration between nations to restore currency stability, so that trade and enterprise can count upon the value of the money they use.

5. *Lower trade barriers*—with all nations to some extent dependent upon foreign trade and many nations largely so.

efforts to broaden international commerce are necessarily part of any program for revival of internal economies.

6. *Reducing the swings of the business cycle*—because of the damaging effects of alternating booms and depressions upon all countries, particularly those dependent upon a few primary products, efforts to modify such swings are essential to an enduring post-war recovery.

7. *Making credit and capital available*—given a reasonable degree of security, private capital is ready to supply much of the international short-term financing and long-term investment needed. Some use of government credit may be necessary; but international credits should be made for sound purposes, in reasonable amounts and with expectation of repayment.

For carrying out the program no single simple formula can be laid down, nor will any complicated elaborate scheme suffice. The problem is primarily one of understanding and of acceptance of the need for agreement among many peoples; of moving forward wherever and whenever opportunity offers, of tempering idealism with realism, and of adapting plans and organizations to the practical difficulties.

The world learned in the rise of political democracy and the development of the free enterprise system what can be done when the natural energies of mankind are unchained. Great as these achievements have been, still greater opportunities lie ahead. The boundaries of human inventiveness and aspirations for progress are as yet uncharted. Our task is to call forth anew those energies that have been so productive in the past. Success in the program requires that the United States assume its full share of leadership with other great powers in creating the conditions that will bring about the desired results.

