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TREASURY DEPARTMENT
WASHINGTON

(The following address by Herbert E. Gaston, Assistant Secretary of the Treasury, at a luncheon meeting of The Citizens Conference on International Economic Union, at the Hotel Statler, Washington, D. C., is scheduled for delivery at 2:00 P.M., E.W.T., Saturday, March 4, 1944, and is for release at that time.)

The woe and the disaster of war are so great that we ought not to add to them the peril of an unplanned peace, or armistice between wars, as destructive as the war itself.

In planning it is usual to think of alternatives, and we have them on the international economic front. One would be economic isolationism, but it would be easy to show that it isn't a workable alternative. We don't exactly know what was the degree of isolation on this continent prior to 1492; but we do know that isolationism has not been the rule since then. Nor could it have been.

Probably no political unit on earth is so well fitted for economic isolation as the United States of America, so nearly equipped to supply all its own wants; but to accomplish it we should need a police force of unimaginable size and the result would be an economic revolution internally. It is of course quite true that America is her own best customer, both for the present and the future, and that foreign trade accounts for but a small fraction of our business. But that small fraction has been built or has grown into the fabric and tissue of our economy. We couldn't cut it out without serious damage and peril to our economic health.

So long as we need and want products of other lands we shall have foreign trade, and no set of restrictions will entirely choke it off. There seems to be no good reason to choke it off, but on the other hand a good many reasons why we should encourage it.

There are reasons of immediate and obvious self-interest. We need to buy and we need to sell. We need to buy products that we don't grow, make or dig. In spite of progress in synthetics we shall probably want to go back to heavy imports of crude rubber. We shall have to continue to get our tin from abroad and to make the high-speed and specialty steels that modern industry and transport demand we shall have to import 40 different commodities from more than 50 countries. We need asbestos, nitrates, chrome ore, flax fiber and various kinds of wools. These are basic materials for manufacture, but the list is long when we get into the field of consumer wants with such items as coffee and tea, tropic fruits and nuts and a great variety of food products. We want also, though we may not need them so badly, cheeses from Holland, china from Great Britain and Sweden, linen from Ireland, laces from Belgium, watches from Switzerland, and no doubt again rare wines and objects of art, beauty and utility from France. We want rugs and other textiles from the near and the far East and works of art and handicraft from the remotest mountains and valleys and deserts of all the continents.

These things we would not give up without a wrench to our economy and our mode of living, nor could we give up our exports without difficulties probably just as serious.

Although normally we sell abroad less than 10 percent of our output of movable goods, that 10 percent is vitally important. The significance of the foreign markets must be judged, not on the basis of the magnitude alone, but in terms of the crucial position of the foreign market in certain industries and the indirect effects that loss of these markets would have on other industries. The tobacco leaf industry in 1938, for example, exported 57 percent of its total production, the cotton industry 46 percent, and the aircraft industry 62 percent. The foreign market is also very large for machinery, petroleum, autos, iron and steel, chemicals and wheat, to mention only a few of the most important.

Exports, too, will assume an added importance for us in the immediate post war years. This country will be faced with the job of reconverting from war to peace-time production. Since the process of manufacturing a steel ingot is the same whether it is to be fashioned into a tank or a locomotive, the conversion problem will be considerably lighter if the industries producing capital goods can expect a continuing market for their output. It may be expected that for a considerable time other countries of the world will need urgently the machine tools and capital equipment that this country will be in an excellent position to provide.

Considerations of direct and obvious self-interest thus dictate for us a policy of trying to open up and to keep open to the maximum degree the channels of foreign trade after the war. We can profit by exporting our special skills and products and by importing the special skills and products of other countries. But there are other less obvious and direct advantages that are in the long run probably even more important. Few other countries are as nearly self-contained economically as we. For most of them the life of their populations on any decent level of subsistence depends on the ability to export and to import. This is as true of countries with a high organization of industry as of countries which are mainly sources of minerals and agricultural products. It is true of Great Britain, of Sweden, of Brazil. As to some countries the export of services such as shipping means the difference between depression and prosperity. For many of these countries the United States is the major market and they also constitute important markets for us.

One of the most striking facts about the modern world is its increasing economic interdependence. One of the by-products of that interdependence is that prosperity can be exported and so can depressions. If we trade with other lands we are to a considerable degree subject to economic influences at work in them. We have a stake in world prosperity, in a general high level of well-being. We have an economic stake, and also a political one, for economic pressures may and do produce political explosions. If we mean to avoid other world wars on the heels of this one we must lose no time in building the economic foundations that will make continuing world peace possible.

Some people have such great faith in the automatic mechanisms of economic life as to believe that no planned overt action is needed for the restoration of international trade, that the world will go back to the happy position of some blessed year in the past if only left to the devices of the individual business man. Hopes such as these ignore completely the experience so painfully acquired during the decades between the two wars. Those years taught us that no nation can avoid assuming some responsibility for the economic life and trade of its citizens. We can choose the economic warfare of the 1930's, when the nations of the world undertook to handle world trade and currency problems independently, or we can benefit by this experience and lay our plans for solutions which do not so clearly lead to decreasing trade and lower standards of living.

From the high tariff policies of the late boom years until the outbreak of the present conflict, the major countries were engaged in practices which seriously diminished the volume of world commerce and prosperity. Politically, we were officially at peace during these years, but economic warfare was being waged continuously. Although no single country was wholly to blame, all were short-sighted. Nations attempted to achieve economic recovery at each other's expense. By means of quotas, tariffs, exchange controls, and competitive depreciation of currencies, countries undertook to export unemployment. These measures provided temporary relief until the countries discriminated against followed suit. The volume of world trade declined rapidly and all suffered.

Competitive exchange depreciation is an evil which snowballs. The actions of specific countries and groups of countries in cutting the value of their currencies - actions which often could not be avoided without help which was not obtainable - created pressures on other countries to do the same. Exchange dealers, understanding the incentive to further depreciation, were encouraged to speculate and thus contributed to the flights from specific currencies which were developing because of the growing monetary instability. The whole pattern of exchange relationships, so slowly reconstructed after the last war, was endangered, and the situation became one of serious monetary disorder.

In addition, another development took place which further diminished the volume of world commerce. Nations, if they are to buy abroad, must pay for their purchases in one of three ways: with gold and foreign exchange, or with money obtained by selling their own products in foreign countries, or with money obtained by borrowing. Since no country is able or willing to permit a gold outflow indefinitely and the depression had considerably decreased the opportunities of selling abroad, foreign loans and credits were very important in determining the level of world trade.

After 1928, however, this last avenue for the acquisition of foreign exchange was virtually closed. The attraction of our own stock market for the investment funds of American and foreign investors was one of the reasons for the pre-depression decline. Unsettled political conditions and the depression were responsible for the reluctance of investors in subsequent years. The result was a further decline in the export markets of all nations.

Thus the problems we shall have to face after the war are not merely those created by the war itself, but in large part they are the heritage of the years of depression and economic warfare which preceded it. We shall face a world disorganized, exhausted and in many areas devastated by war. The occupied areas and those which have been the battlefields will require economic assistance on a tremendous scale. UNRRA, the international relief organization, will provide for the most urgent needs, but relief will hardly be sufficient in view of the devastation of Europe and the thoroughness with which the occupied nations have been plundered of machinery and other capital equipment. Immediate positive action will be necessary to prevent economic stagnation and the social and political unrest which would follow upon it.

For some years after the war few countries will have the surplus commodities which can be used to pay for imports. Until such time as these nations can again make use of their full productive capacity, extensive international credits must be provided. We many reasonably expect that the required volume of short term capital will be made available by the commercial banks and trading houses. Industrialists and foreign traders are already making plans to resume their usual exports and to extend generous credits to their customers. It is also likely that there will be a rapid resumption of direct investments in industrial exterprises abroad in the form of subsidiaries and branch plants.

In addition, the world normally counts on a considerable volume of long term credits to bring about a large and balanced international trade. As much as one-fourth of the exports of the large industrial countries has been paid for in ordinary times with funds provided through foreign investment. In the post war period, long term credits will also be required for reconstruction, for reconversion to peace time production, and for the development of economically backward areas.

For many reasons it is unlikely that private investors will provide an adequate supply of long term capital. In view of the losses suffered on foreign securities and the restrictions imposed on the withdrawal of earnings in the last decade before the war, private investors may reasonably exercise considerable caution. The uncertain business conditions which will undoubtedly prevail for a number of years will also serve to discourage long-term lending.

Only with some assistance, therefore, can private investors be expected to satisfy the unprecedented capital requirements of the post war world. An institution is needed which can encourage private investors and share their risks. To meet this need the United Nations have begun discussions which look forward to the establishment of an international agency designed to facilitate the extension of long term credits. A tentative plan for a Bank for Reconstruction and Development has been formulated by the technical staffs of the Treasury and other departments and agencies of this government.

The proposed Bank would be a permanent inter-governmental institution designed to encourage and aid international investment through the usual investment channels. It is intended to make no loans or investments which can be made by private investors on reasonable terms. In those cases in which borrowers could not secure loans for productive purposes without aid, the Bank would guarantee the loans made by private investors. Where market conditions made it difficult to secure all of the funds from private investors, the Bank might participate in loans made through the customary channels. It might also supplement the private capital market by making loans itself if capital for productive purposes was otherwise not obtainable. In all of its operations, the Bank would lay great stress on the productivity of the project to be financed. While the Bank would be interested in seeing adequate capital made available for productive purposes, it would encourage only sound loans on which the borrower would be able to pay interest and principal.

The existence and operations of the proposed investment Bank would be a powerful stimulus to the revival of private international lending and trade. It would not, however, do the whole job alone. If private enterprise is to take hold quickly, investors and traders must confidently expect the restoration of stability and balance and a greater degree of freedom in international economic relations. There must be explicit assurance that the monetary collapse which followed the last war in many countries will not be permitted, and secondly, that the restrictions which hampered trade and the withdrawal of earnings will be abandoned as quickly as possible.

To accomplish these purposes another international agency is currently under discussion by the technicians of the United Nations. In this case the proposal is for a permanent International Stabilization Fund designed to prevent undesirable currency fluctuations. The Fund would also have as a major function the removal of the monetary restrictions on trade which developed during the depression and the war.

Both functions are extremely important. Monetary stability does not mean that exchange rates will be pegged for all time with no fluctuations permitted, but rather that exchange rates must move only when essential to establish orderly and stable patterns in accordance with changes in the basic economic relationships. The Fund would require that member countries define their currencies in gold and agree not to change these relationships, except to a very moderate degree, unless the change had been approved by the Fund. In turn, the Fund would help member countries maintain the value of their currencies. Member countries would also be prevented from engaging in competitive currency depreciation and from imposing exchange restrictions, except for the purpose of controlling undesirable capital movements.

Both the Bank and the Fund would have no other purpose than to help create conditions under which the flow of foreign trade and productive investment between member countries would be fostered. To the extent that we succeed in creating an environment conducive to a high level of commerce, the interests of all nations will be served. Both projects are now in the area of technical discussion. To set them up will require international agreement and of course legislation which will put the full weight of our Government behind them.

The problems involved are international in scope. Our experience in the years between the two wars, when countries attempted to deal with these questions independently, must convince us that only through effective international cooperation can they be solved.

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