

Business and Industry Committee  
For Bretton Woods  
Roosevelt Hotel  
New York 17, N. Y.

#### THE AUTOMOBILE INDUSTRY AND BRETTON WOODS

The automobile industry has an important stake in foreign trade, both as an exporter of finished products and as an importer of raw materials such as rubber and tin. In 1938 we exported 352,000 motor vehicles representing over 14 per cent of our domestic production in this important industry. In 1929 our exports were 692,000 vehicles.

Our automobile exports are quite sensitive to fluctuations in the volume of world trade. In 1932 automobile exports fell to 65,000 or less than 5 per cent of our domestic production in that year. While the value of our total exports decreased by about 70 per cent from 1929 to 1932, the value of our automobile exports decreased by 86 per cent. It is clear that decreases in total exports are accompanied by more than proportionate decreases in our automobile exports.

When foreign countries impose exchange restrictions and discriminate in various ways against American imports, such restrictions have in the past tended to fall especially heavy on imports of American automobiles. The result of such restrictions has been that in spite of our greater efficiency and the universally recognized superior quality of our products, our automobile manufacturers have been losing out in world markets both in absolute and in relative terms. With practically no change in total world production of automobiles, the proportion of American output decreased from 85 per cent of the world's production in 1929 to 76 per cent in 1937.

The wage rates which the American automobile industry is able to pay its workers are among the highest in the world. Yet, our automobile industry can undersell the automobiles of any other country even after transportation



costs and reasonable tariff charges are added. This is the type of export which we ought to encourage in America because the more we concentrate upon the production of those commodities in which our relative efficiency is greatest, the higher will be the standard of living of our people. The best way to accomplish this end is to work for an expansion of world trade by stabilizing the world's currencies and by removing exchange restrictions on payments for trade.

In addition to being an important exporter of finished products and importer of raw materials, the automobile industry has large foreign investments in the form of branch manufacturing plants and assembly plants in Canada, Great Britain, and in the countries of Western Europe and South America. Direct foreign investments have proved to be our most successful type of foreign investment, and it is important that such investments combining American capital and American enterprise be encouraged.

But if our foreign investments are to be successful and are to continue to expand, American-owned companies must be able to convert their foreign revenues into U. S. dollars in order to pay for American materials and to pay a return to their American owners. Foreign exchange regulations have often prevented American-owned companies from converting their profits into dollars with the result that such profits have lain idle for years in blocked foreign accounts. It is important, therefore, that all countries should agree not to place restrictions on the convertibility of their currencies for current transactions.

What is the Bretton Woods program and how will it help to provide the kind of international economic environment which the automobile industry requires?

The proposals drawn up at Bretton Woods look toward the establishment of two postwar financial agencies that are designed to promote an expansion



of international trade and productive international investment. One is to be known as the International Monetary Fund, the other as the International Bank for Reconstruction and Development. Both agencies will be supported and managed cooperatively by all the countries now joined together to win the war. Because we are the richest country in the world, we will be the largest single stockholder. Both institutions will be located in the United States, and in the management of both we will control more votes than any other country.

The Fund will perform several functions essential to international trade. It will be empowered to stabilize the value of world currencies in terms of each other. Stability alone, if attained, would solve one of the most persistent and vexatious problems connected with international trade. It would eliminate entirely any uncertainty concerning the cost of foreign currencies needed to make a purchase abroad, or the dollar value of proceeds received from sales abroad. People who buy and sell across an international boundary line could do more business with less trouble if they know today what the exchange rate between the two countries would be tomorrow, next month, and a year hence. That is the sort of stability the Fund will work for.

The Fund will also deal with other troublesome problems that have hitherto hampered trade. It will work for the speedy elimination of controls on exchange transactions and the abolition of trick currency devices, such as those employed by Germany, designed to limit foreign trade or to control it for the sole purpose of preparing for aggression. The object will be to reduce to a minimum the effort required to buy foreign exchange to settle obligations abroad, and to give the individual holding claims to foreign currencies complete freedom of action--freedom to sell for dollars or spend abroad as he pleases.



Finally, the Fund will encourage the elimination, or at least the reduction, of non-financial trade barriers, such as tariffs and import quotas.

The International Bank for Reconstruction and Development will go about increasing trade by a longer route. Its purpose will be to open the channels of international investment and to encourage foreign lending on the part of countries with capital to export.

The need for a revival of international investment is very great indeed. War-torn countries, like France and Belgium, have had their "seed-corn" capital destroyed. They must have help from abroad before they can help themselves. Other countries need foreign capital for developmental purposes. This is particularly true of some countries in Latin America and the Far East. They will require assistance from abroad if they are to uncover their hidden wealth and become full-fledged participants in maintaining a peaceful and prosperous world.

The Bank's primary function will be to guarantee foreign securities sold in this (or any other) country. The Bank, however, will add its guarantee only after three specific conditions are satisfied. (1) Have the borrowers exhausted all possibilities of raising the funds they require through the usual investment channels? The answer must be that the funds cannot be raised through the usual channels on reasonable terms. (2) Will the project for which a loan is sought increase the income of the country in which it is to be located? The Bank's own investigators, who will make an on-the-spot check, will have to be convinced that it will. (3) Does the government of the country in question favor the proposed project? Very well, it will not mind assuming full responsibility for seeing that the funds are properly handled and duly repaid. It will therefore be asked to guarantee the full amount of the loan.

At this point the Bank will add its own guarantee, whereupon the borrowers will proceed to market their securities in any country that has capital to lend.

This means two things that are of great importance to the United States.

(1) When foreign securities backed by the Bank's guarantee are sold in the United States, the risks associated with the investment will not, as in the past, be borne entirely by the investor, but by the pledged credit of all the member countries that have clubbed together to make the Bank possible.

(2) Since loans sponsored by the Bank will be in addition to the foreign loans that we would otherwise make, the expenditure of the proceeds in this country will create employment, production, and exports that we would not otherwise enjoy.

The Bretton Woods proposals have recently been laid before Congress, which in a strict sense will consider only whether the United States will cooperate with other countries in setting up the Fund and Bank. But in a broader sense, Congress will act not for the United States alone but for all of the 43 other United and Associated Nations that are looking to us for leadership. If Congress approves the Bretton Woods proposals, the approval of the other governments is assured.