

Business and Industry Committee
For Bretton Woods
Roosevelt Hotel
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THE ELECTRONICS INDUSTRY AND BRETTON WOODS

The electronics industry faces a serious competitive situation in the post-war period. There are hundreds of new firms in the business, all anxious to continue, war-time expansion has been tremendous, and post-war markets are uncertain. Under these unsettled conditions, the Bretton Woods proposals -- the International Monetary Fund and the International Bank for Reconstruction and Development -- can help the electronics industry to expand both its domestic and foreign markets and thus relieve the competitive pressures which contraction must otherwise create.

Within the space of three years, the electronics industry has grown to a point where it now exceeds our pre-war production of autos and auto equipment. From 1939 to 1941, the electronics output was valued at approximately \$300 million. By 1942, a volume of \$1.5 billion had been reached, only to be more than doubled in the following years. The present output is more than \$4.6 billion. This expansion is evidence of the splendid job which electronics has done in producing for war, but it will also create serious difficulties in the post-war period.

Whereas the auto industry consisted of a few large, established firms working for well-developed domestic and foreign markets, the electronics industry must try to sell to a consuming and industrial public which is uninformed and unprepared. The industry itself, furthermore, is uncertain about the peace-time uses of its product. The industrial products of the industry, which will generally be directly applicable to peace-time needs, represent only 5 percent of electronics activity, and for the great volume of strictly military products, including radar, post-war demand is very uncertain.

The electronics industry has recognized its difficulties and the early predictions of a golden future are now giving way to pessimism. Industry sources are being quoted as expecting post-war production equal to only \$800 million to \$1 billion. The prospect of achieving this contraction on an orderly basis is complicated by the large number of small producing units in the industry. There are now 1200 firms as compared with 400 to 500 before the war, and small firms have maintained their relative position in the industry throughout the period of wartime expansion. In addition, the industry's external competitive position will be injured by the fact that the war demand for electronics equipment will be maintained for some time after other industries have begun reconversion. Electronics will, therefore, be late in competing for the peace-time dollar.

In the uncertain conditions which will prevail after the war, the Bretton Woods proposals will help the electronics industry by expanding U. S. exports. Part of these exports may reasonably be expected to take the form of electronics equipment, and the general expansion of trade and business stimulated by the Fund and Bank would certainly increase our domestic demand for electronics products. The International Fund and Bank can help electronics producers to set their sights considerably above a contracted billion dollar output to a level appropriate to an expanding national economy and a high U. S. national income.

Foreign markets offer an important area for electronics sales even in the immediate post-war period. The industry has been quick to realize the opportunity, and it is now expected that improved models will be available for export sooner than the models designed for the domestic market. Many of the Latin American countries are ripe for the development

of their radio markets. The Department of Commerce recently made a study of the situation in Argentina and reported very favorably on its potential consumption of radio equipment and parts from the United States. The industrial development which will be undertaken by these countries and the reconstruction projects of Europe and Asia will also create what should be an important market for the electronics industry. It will certainly be much easier to sell electronics equipment when new investment for reconstruction and reconversion must be undertaken than it will be to induce firms to replace expensive equipment at a later time. These early purchases, furthermore, will determine the character of the replacement and maintenance market for many years to come.

The International Fund and Bank will also assist electronics manufacturers to expand their domestic market. There are some 750 different kinds of electronic tubes, the manifold uses of which we have only begun to explore -- radar, television, the electric eye, electronic control and inspection devices, and induction heating of metal, plywood, aircraft parts, and a growing list of materials. Many of these processes, however, were already known in the pre-war period, and some of the consumer devices had been available for 10 years.

The most important question for the future of the industry is how quickly these devices will now be introduced. The growth in our knowledge and experience in electronics stimulated by the war will help, but the full potentialities of the market can be realized only if the American economy is prosperous and expanding. American industry will replace existing machinery with new electronic equipment only if the market for our products is growing. A sharp industrial contraction will certainly

reduce the interest of American business in the charms of new and generally expensive electronics products. Similarly, electronics can speed up and cheapen the production of aeroplanes, helicopters, and pre-fabricated houses for consumers, but the demand for these products can be created only by jobs and prosperity.

In the immediate post-war years, prosperity in the United States will depend in part on the expansion of our foreign markets and the revival of world trade. Foreign countries are anxious to buy our commodities, but without financial assistance they will be unable to do so. The International Bank and Fund will help to provide the necessary assistance and will thus make effective the existing demand for American products. They will do this by making it possible for countries to achieve a better balance in their international payments position, and by working to remove the restrictive monetary policies which have seriously curtailed world trade in the past. The International Bank will also assist European countries to obtain special credits for the essential reconstruction and development job which must be done. Both institutions will thus help foreign countries to buy the industrial and other equipment which they require. It will help them to buy electronics equipment directly and it will help them to buy the iron and steel and pre-fabricated houses which will create a demand for electronics equipment at home.

The International Monetary Fund will perform several functions essential to trade recovery. 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 knew 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.

The International Bank for Reconstruction and Development will go about increasing trade by a longer route. Its purpose will be to reopen the channels of international investment and to encourage foreign lending on the part of countries with capital to export. These loans will be made for productive projects in countries needing foreign assistance for their reconstruction or development. They will be used for railroads and highways, for factories, electrical power systems, and other developmental programs which will increase the productivity of the borrowing country and thus help it to repay the loan. Both the war-torn and the industrially backward countries must be given this assistance if they are to become full-fledged participants in maintaining a peaceful and prosperous world.

Among the countries with capital to export, the United States ranks first in importance. The Bank will help us find profitable avenues for the

investment of this surplus capital and these investments will, in turn, increase the world's demand for industrial exports. Since the United States is also the leading producer of industrial equipment, and since we will be one of the few countries able to export immediately after the close of hostilities, the loans financed with the Bank's assistance will be of great benefit to this country and to our producers of electronics equipment and other industrial products.

The Bank will operate in substantially the following manner. Its primary function will be to guarantee the 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? Yes? It will therefore be asked to guarantee the full amount of the loan.

These conditions have been established to assure use of the loans for productive purposes and to make certain that the loan will be repaid.

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 guarantees 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.

Both the Fund and the Bank will be supported and managed cooperatively by all 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 Bretton Woods proposals are now before Congress, which in a strict sense is considering only whether the United States will cooperate with other countries in setting up the Fund and Bank. But in a broader sense, Congress is acting 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.