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Foreign Trade in the Post-War Economy

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FOREIGN TRADE is too frequently considered as an unimportant adjunct of domestic trade. Foreign trade can be, by contrast with this limited view, a positive sustaining force in the United States economy. It can create broad new markets for manufactures and form an important outlet for savings, as well as provide both raw materials for domestic industry and articles for immediate consumption which are produced solely or more advantageously in foreign countries than at home.

Economic conditions are made to order for a realization of these objectives. In the United States, fabricating capacities in heavy industry especially have been expanded beyond any probable post-war needs, and there is an abundant supply of capital from past and current savings. Outside the United States, reconstruction and developmental programs call for huge amounts of the products of heavy industry and offer many opportunities for the profitable investment of foreign capital.

The problem of combining these factors to achieve a balanced expansion of foreign trade is one of national scope and importance. But it is also a problem which faces thousands of businessmen in their search for post-war markets.

The United States has a strong national interest in an expanded post-war foreign trade, not only as one means of maintaining high domestic employment and production, but also as a means of making the most economical use of our human and material resources. Our interest in foreign trade is broader, however, than economic considerations alone would suggest.

Because of the enormous economic weight of the United States in the world economy, it has a heavy responsibility for contributing to world prosperity through a large and stable volume of foreign trade and foreign investment. To the extent that world prosperity helps in preserving peace among nations, our foreign trade policy becomes an important element in our foreign political policy. Furthermore, the United States is in a unique position with respect to its international economic relations. Its foreign trade is an important part of world trade but a small, even though critical, part of its total economy. It is the major source of international capital, but its foreign investments represent a relatively unimportant source of national income. The gold holdings of the United States are equal to those of all the rest of the world plus their short-term dollar claims.

For all these reasons, the position of the United States is fundamentally different from that of countries which are heavily dependent on foreign markets or upon foreign sources of supply for their very subsistence, heavily indebted to other countries and largely dependent on them for new capital, or without substantial external reserves in relation to current and prospective requirements.

Whereas countries in these circumstances have little freedom of action and are often compelled to think first of their economic security, the United States can take the lead in promoting an expansion of its own and world trade without incurring undue risks. From this point of view, the course of international economic relations after the war will be strongly influenced by the initiative and vision of those who determine the foreign trade policy of the United States.

Past Patterns of Foreign Trade

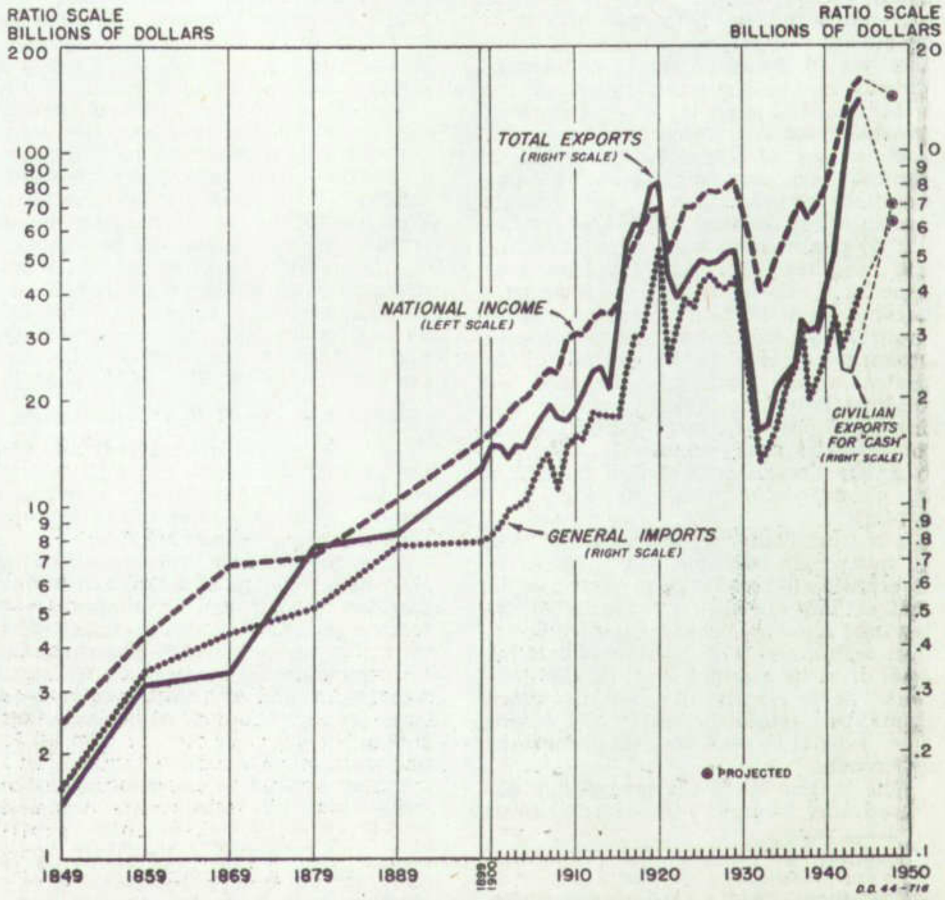
Foreign trade has played, in the past, a vital role in the United States economy, but a very different role at different stages of its development. The history of our foreign trade, like that of any older country, bears out the fundamental fact that there is no ideal pattern of foreign trade for an economy in the abstract. The pattern is determined by its stage of development, its resources, and other circumstances and therefore varies from time to time and from country to country.

Thus, during the early history of the United States up to the middle of the 19th century, foreign manufactures and certain foodstuffs, such as coffee and sugar, were imported in exchange for agricultural and forestry products, including cotton, unmanufactured tobacco, wheat, and wheat flour. The development of the resources of the country was speeded up both by the opening of foreign markets and by the investment of foreign capital.

This pattern of trade—imports consisting largely of manufactures, exports consisting largely of primary products, and an inflow of foreign capital financing an excess of imports—was suited to a young economy engaged in exploring and exploiting its natural resources, and contributed greatly to the steady rise in the standard of living.

As the industrialization of the United States proceeded during the last half of the 19th century, the pattern of its foreign trade and other international transactions changed. The relative impor-

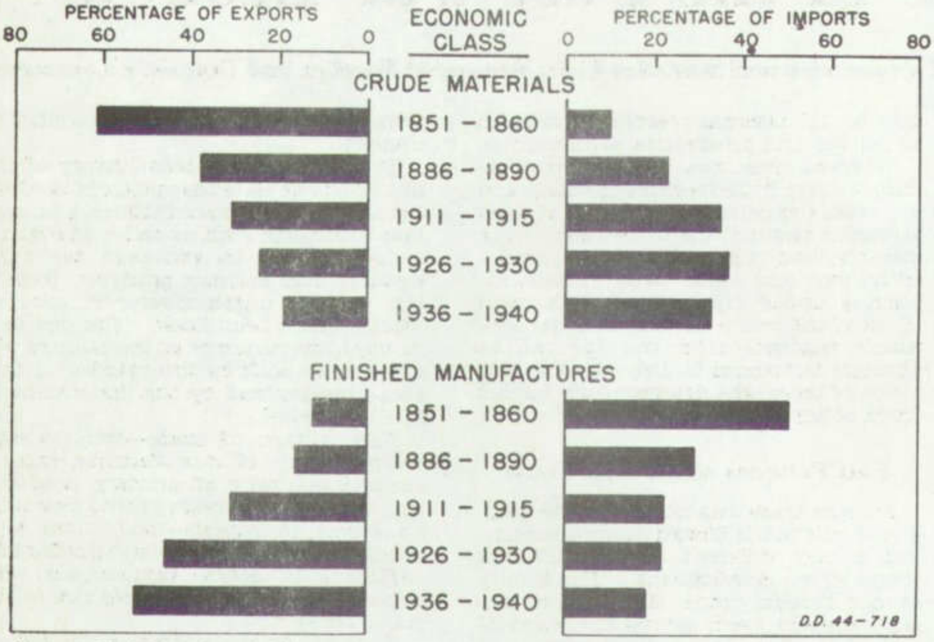
Chart 1.—Foreign Trade of the United States and National Income



Note: For an explanation of the projection of imports and exports into the post-war period see p. 8.

Source: U. S. Department of Commerce.

Chart 2.—Proportions of Crude Materials and Finished Manufactures in the United States Foreign Trade



Source: U. S. Department of Commerce.

tance of finished manufactures among imports declined and that of crude materials increased. The opposite shift occurred in exports. (See chart 2.)

The country was by this time seeking foreign sources of raw materials for its expanding industries and foreign markets for its own manufactures. During this period foreign capital aided materially in the industrialization of the nation as well as in the development of natural resources. Then, as the wealth and income of the country increased, capital from domestic sources became adequate for practically all requirements and at about the turn of the century began to go abroad in substantial amounts.

During the 1920's the investment of American capital in foreign countries became an important factor in raising exports from the United States to record peacetime levels. At this period United States foreign trade was characterized (in greatly oversimplified terms) by imports composed in large part of crude materials, exports composed in large part of finished manufactures, and an outflow of capital supporting an excess of exports.[1]

Far from being necessarily short-run, or inherently unstable, this pattern of international transactions was, and is, entirely appropriate for a highly industrialized economy based on mass-production techniques with a high and rising level of income and a high rate of savings. It is clearly the pattern which should be reestablished after the present war, with, however, several important differences.

One is that all of the magnitudes involved must be greatly increased as compared with any previous standards if foreign trade is to play its full and proper role during the reconversion period and beyond. A second is that the irresponsible methods and practices of foreign investment prevalent during the 1920's should not return. A third lies in the assumption implicit throughout this analysis that effective steps will be taken to insure a politically stable world.

The role of lender is just as obvious for the United States vis-à-vis the rest of the world as it has been in the history of the domestic economy for the industrialized East vis-à-vis the developing West. And, unless counteracted by restrictive trade policies, the development of the resources of other countries with the assistance of American capital will just as certainly create new markets abroad for our national products as the building up of the West created new markets for the products of the East.

Implications of Wartime Trade

The restoration of foreign trade to a peacetime basis begins, not with pre-war conditions, but with foreign trade as it is today. The broad features of this wartime trade are readily defined.

Exports (exclusive of shipments to foreign countries by the Army and Navy for the use of United States armed forces) are running at approximately 14 billion dollars, of which about 2.8 billion represent exports of civilian goods for "cash," and 11.2 billion Lend-Lease exports and "cash" military exports combined.[2]

The beginning of the transition from war to peace in foreign trade is signalized by the fact that Lend-Lease and military exports reached their peak (on a semiannual basis) during the latter half of 1943, remained about the same during the first half of 1944, and have since turned downward. "Cash" exports of civilian goods, on the other hand, have shown an upward trend since the first quarter of 1943.

The decline in Lend-Lease shipments will undoubtedly become sharp with the end of major hostilities in Europe. The trend in "cash" trade is to be explained partly by an easing of the shipping situation; partly, as regards very recent periods, by a relaxation of export controls; partly by the reopening of oversea markets to commercial trade; and partly by the transfer to the "cash" category of exports which had been made previously under Lend-Lease. All of these influences will continue to operate during the transition period and will begin rapidly to push up "cash" exports following victory in Europe.

The striking feature of wartime import trade is its high volume in relation to the limited areas from which imports can be obtained. Imports in 1944 will exceed 4 billion dollars despite the fact that they are coming from sources which in pre-war years supplied less than 60 percent of total imports and the further fact that many of these sources are restricted or not readily accessible.

Not since 1929 have imports even from *all* foreign sources reached so high a figure. To be sure, a number of extraordinary factors have operated to increase the volume of imports. On the other hand, the shortage of shipping space has limited the import of less essential goods and, at times, also of essentials; and in some countries the diversion of resources to war production or the lack of equipment and supplies has curtailed exports to the United States.

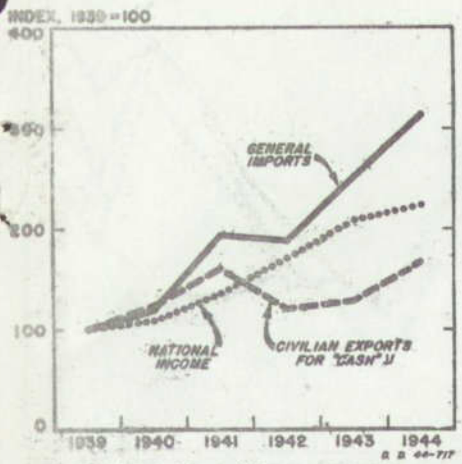
What are the implications of wartime trade for the post-war period? Is it true, as is frequently observed, that wartime trade is so abnormal as to have no significance for peacetime commerce? Consider, for example, the current trade between the United States and Latin-American countries. Imports into the United States from these countries in 1944 will exceed 1.6 billion dollars—larger than imports from them in any previous year.

This dollar volume of imports can be explained in part by purely wartime factors: prices substantially higher than before the war, purchases in excess of current requirements for stock piling, diversion of trade from normal sources of supply in other areas, war demands which have no peacetime counterparts, and the intensive procurement efforts of the United States and Latin American Governments. *It is to be explained also, however, by the high level of industrial activity and income in the United States and the heavy demand for raw materials and for foodstuffs which it generates,* as suggested by the comparative trends in imports from the area and manufacturing activity in the United States shown in chart 3.

[1] Actually, the structure of the foreign trade and international payments of a highly industrialized country such as the United States is very complex.

[2] "Cash" is used here, not in its literal sense, but as a convenient label for non-Lend-Lease exports. With minor exceptions, however, such exports do involve a financial consideration. On the other hand, Lend-Lease exports include some shipments on a reimbursable basis, i. e., involving a current financial consideration.

Chart 3.—Trade of the United States with the American Republics and National Income, Pre-War and War



[1] Total exports less military and lend-lease.
Source: U. S. Department of Commerce.

As the accompanying table indicates, recent imports from Latin America have consisted largely of commodities which were important in the trade in pre-war years (e. g., coffee, sugar, petroleum, oilseeds and vegetable oils, fruits, and copper) and to a relatively small extent of products which were formerly unimportant (e. g., tin, zinc, essential and distilled oils, precious stones, lead, and beverages) or of wholly new items.

The principal difference between the current trade and pre-war trade is that the same commodities are being imported in larger quantities and at higher prices.

One can make generous allowances for the wartime factors in the trade and still be forced to the conclusion that, at a similarly high level of industrial activity ~~in time of peace~~, imports from Latin America would be very nearly as high as they are now.

A rough commodity-by-commodity analysis of the trade indicates that probable decreases might be of the order of 250 million dollars and probable increases, resulting from the release of shipping and other factors working in the opposite direction, of the order of 65 million dollars without allowance, however, for a possibly heavy increase in imports of petroleum, regarding which no conjectures were made.

Current import prices are substantially higher than in the years just preceding the present war. However, thanks largely to the negotiation of intergovernmental purchase contracts and to agreements between United States and British authorities on their foreign purchasing programs, there has been no such inflation of import prices as occurred during and immediately after the last war. These prices are lower now, moreover, than they were during the peacetime period 1923–25.

Although instances may be cited of individual prices which are due to fall, it is not certain that import prices on the average will be much if any lower after the war, provided favorable conditions of demand for raw materials exist in the United States and other major industrial countries.

As another general observation, it should be noted that current imports from Latin America, although valued at more than three times their average amount in the immediate pre-war period, are not so high as one would expect *a priori* on the basis of the increase in industrial production and the rise in import prices.[3]

Wartime trade between the United States and the Latin-American countries has post-war significance from another point of view. As may be seen in chart 3, there is a widening gap between wartime imports and wartime exports which is typical of our wartime trade as a whole.

Considering that the demand for American goods by these and other countries has usually equalled or exceeded their current dollar receipts, it is a safe assumption that exports to Latin America in the absence of wartime controls would be of approximately the same dollar volume as imports, even leaving out of account other possible sources of dollars such as new investment of United States capital.

Exports of this magnitude, that is, at an annual rate of 1.6 billion dollars, would be three times the amount of prewar trade and nearly double the amount in any previous year, not excepting the inflated trade during and after World War I. In this way, wartime trade indicates the enormous potentialities of peacetime trade under conditions of high economic activity at home and abroad.

Foreign Trade After the War

The volume of foreign trade after the war cannot be forecast precisely. However, the general magnitudes of import and export trade can be projected into the period following the end of major hostilities in Europe and in the Pacific on the basis of past relationships and certain assumptions regarding the volume of economic activity in the United States.

Imports, which consist to the extent of two-thirds of materials for further fabrication or processing, have been in fairly close and stable relationship with the volume of industrial production and the latter, in turn, to the national income and the gross national product. (See chart 4.) It may be assumed, following the analysis in *Foreign Trade After the War*,[4] that a gross national product of 175 billion dollars at 1942 prices is attainable in the post-transition year 1948 by the "full" employment of the labor force.[5]

It is necessary to emphasize that this 175-billion dollar volume of post-war production does not represent a forecast of the level of production which is likely to be reached and sustained after the war. Rather, it constitutes a target at which we have to aim if the needs of the country for goods and services are to be met adequately and if distress unemployment of major proportions is to be prevented.

This target will be achieved only if sufficient consumption and capital expenditures are generated in the economy ~~to take total production off~~ the market

[3] The computed figure is 2,000 million dollars as compared with the actual figure of 1,600 million.

[4] Economic Series No. 28, Bureau of Foreign and Domestic Commerce, 1943.

[5] The 175 billion dollar gross national product figure used here is not inconsistent with the 165 billion dollar estimate used in "Markets After the War" (Senate Document No. 40; Government Printing Office, 1943) since it presupposes that the time required for adjustment in our foreign trade will take longer than in the domestic field. The difference is the allowance for growth in the economic potential for two years. The year 1948 is arbitrary, and is to be interpreted as meaning a calendar period several years removed from the end of the war.

"Full" employment is not used in the sense of a complete absence of unemployment. For a definition of the concept, see "Post-War Manpower and Its Capacity to Produce" in SURVEY OF CURRENT BUSINESS for April 1943.

Table 1.—Principal Imports into United States from Latin America, 1938–43 [1]

[Millions of dollars]

Commodity	1938	1939	1940	1941	1942	1943
Coffee	139.9	136.2	124.3	172.2	201.4	271.5
Cane sugar and molasses	88.3	82.5	82.3	140.2	135.7	211.1
Petroleum and products	38.3	42.3	66.8	81.8	36.4	84.6
Fruits and preparations	31.8	32.2	32.6	33.5	20.2	23.7
Oilseeds and vegetable oils	30.5	33.1	32.4	49.7	46.7	49.5
Copper	26.6	30.1	51.9	110.6	137.6	130.4
Cocoa or cacao beans	13.3	13.9	14.3	21.7	16.4	27.4
Fertilizers, mainly sodium nitrate	12.9	13.6	14.8	13.7	18.3	17.1
Hides and skins	9.9	19.2	24.6	47.0	43.4	36.8
Textiles other than wool	9.7	8.4	12.3	26.2	37.1	46.5
Meat products	9.5	9.7	9.4	17.8	19.2	25.5
Tobacco, unmanufactured	7.9	8.1	8.9	9.3	10.8	15.0
Wool, unmanufactured	7.8	17.1	46.7	100.4	57.1	85.9
Ferro-alloys	3.7	4.0	9.2	16.9	23.6	31.6
Vegetables and preparations	3.6	3.3	4.6	8.6	8.4	27.0
Dyeing and tanning extracts	3.4	5.8	4.3	8.7	9.1	9.6
Wood and manufactures	3.0	2.6	2.9	5.1	5.7	10.0
Furs and manufactures	1.7	1.4	2.8	7.3	3.7	7.5
Chemicals, other than fertilizers	1.7	1.2	3.2	5.1	4.5	12.1
Beverages	1.6	1.6	1.7	2.6	3.1	29.4
Lead	1.3	6.0	6.6	18.6	11.7	22.3
Precious stones and imitations	.8	2.1	4.6	7.7	10.4	16.4
Essential and distilled oils	.6	8	1.3	3.4	3.4	2.7
Zinc	.6	2.5	2.4	7.8	22.6	14.1
Tin	.5	.7	2.6	21.8	14.3	10.9
All other commodities	36.1	48.5	56.3	92.3	114.9	185.8
Total imports from Latin America	479.0	526.9	623.8	1,029.5	1,016.0	1,404.4

[1] The data represent imports for consumption.
Source: U. S. Department of Commerce.

at profitable prices. The likelihood that this will actually be the case differs in the short run and in the long run.

At the end of the European war, but with hostilities in the Far East still in progress, war expenditures will continue to claim a substantial part of total production and to distribute a large volume of incomes to the public. Together with accumulated savings, this purchasing power will probably create a demand for the additional civilian products that will become available.

During this interval, the problem of maintaining a high level of production and employment will be on the supply side rather than on the demand side, and will center in the technical and administrative tasks of rechanneling productive resources no longer needed in the war effort into the production of goods and services for civilian consumption.

Even after cessation of the war in both theatres, the demand for durable consumers' goods and capital goods which had to be postponed during the war may continue for some time to maintain a high level of production and employment.

It is the long run, after this deferred demand has spent itself as a motivating force in the expansion of peacetime output, that presents the greatest difficulties. For we shall then require an effective demand from other sources for the great volume of goods implicit in full employment. To generate it will tax the ingenuity of both business and government.

Foreign trade can and should make an important contribution to a solution to this long-run problem. As pointed out elsewhere, however, it cannot provide a complete solution if for no other reason because of its comparatively small size.

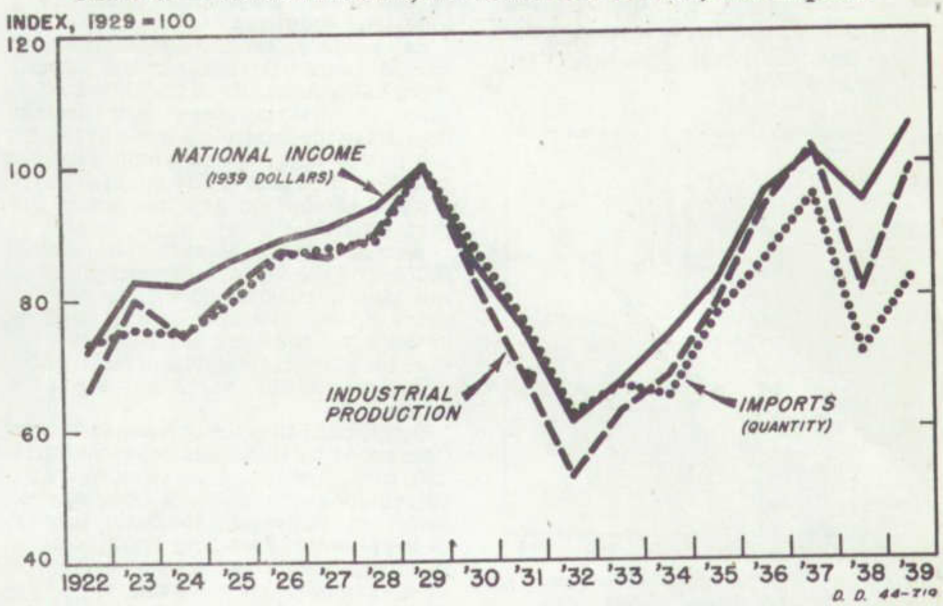
A gross national product of 175 billion dollars would be associated with a volume of industrial production measured by an index of 210 (1935–39=100) and this level of industrial activity with a volume of imports estimated at 6.3 billion dollars in terms of 1942 prices. This projection of imports must be qualified, as has just been emphasized, by the degree to which a high level of domestic employment is actually attained. It must be qualified also to the extent that the relationship between imports and industrial production has been altered during the war.

The relationship has been altered in one direction by the reduced dependence on foreign sources of raw materials as a result of the development of sources at home. Rubber may be the outstanding example.

It has been altered in the opposite direction by the greater dependence on foreign sources consequent upon the serious depletion of domestic supplies of metals and minerals. Petroleum may be the outstanding example here.

The net result of these opposing influences is a matter of judgment, but there is no clear evidence that those tending to decrease imports should be stronger than those tending to increase them.

Chart 4.—National Income, Industrial Production, and Imports



Sources: U. S. Department of Commerce; industrial production index, Board of Governors of the Federal Reserve System, recomputed with 1929 as base.

To the potential dollar volume of imports in a post-war year must be added, for present purposes, an allowance for purchases of services from foreigners and for new American investments abroad, since it is the sum of imports, payments for services, and new foreign investment which determines the total supply of dollars available to foreigners for the purchase of American goods and for other transactions requiring payments to the United States. With such an allowance made and account taken of the pre-war proportions between dollars used by foreigners to buy American goods and for other purposes, United States exports after the war under the stated assumption may be placed at approximately 7 billion dollars.

These projections of imports and exports into the post-war period represent normal expectations with no change in economic policies affecting the basic conditions of trade and without regard to such trade-creating developments as the growth of air transport. They would represent also a continuation of trends in and relationships between national income and foreign trade observable over the past century despite war and depression and economic revolution.[6] (See chart 1.)

That the projected levels of imports and exports would be attained in fact under the conditions assumed is indicated by the experience of wartime trade. Thus, the increase in imports following the outbreak of the war in Europe brought their dollar volume in 1941—before the special influences arising from the entrance of the United States into the conflict came into play—to 3.3 billion dollars, or to about what would have been expected on the basis of the rise in industrial production, national income, and prices, with due allowance for the stoppage of trade with much of Europe.

If the volume of imports is projected to 1944 on the basis of the further rise in industrial production and import prices since 1941, a figure of 9 billion dollars is indicated. The actual amount will be about 4 billion dollars. But imports of this value are being drawn, as indicated above, from sources which normally supply less than 60 percent of total U. S. imports, including sources which are more or less restricted or partially cut off. There are various reasons, too, for believing that a given volume of industrial production, as measured by standard indices, is associated with a smaller volume of imports during the war than it would be under peacetime conditions.

Another calculation may be based on the volume of imports from Latin America in 1944, which is estimated at 1.6 billion dollars. Since imports from this area constitute about 22 percent of total imports in pre-war years, imports from all sources of more than 7 billion dollars would be indicated under current conditions of demand and at current prices, without allowance, however, for the diversion of trade from other sources. These roughly computed magnitudes are higher than the projected volume of imports after the war, but industrial production and prices are now at higher levels than have been assumed to exist in our hypothetical post-war year.

Foreign Trade in the Transition

Under the more normal conditions of trade which will be reestablished after the end of the war in the Pacific, the volume of export trade will depend largely upon the amount of import trade and the latter upon the level of economic activity in the United States.

But during the period between the end of the war in Europe and the end of the

[6] This does not mean that the relationship is an unchanging one. On the contrary, there is a long-run tendency for the volume of foreign trade to decline in relation to national income especially because of the increasing contribution of service industries to national income.

war in the Far East, which is here called the transition period, the volume of foreign trade will depend upon a variety of short-run influences. With respect to imports, the dollar amount may be expected to rise gradually, as sources of supply are reopened, toward the projected post-war figure of 6 billion dollars.

Renewed imports from European countries closed to trade during the war, which accounted for a sixth of total prewar imports, would make a major addition to the 4 billion dollars of imports coming almost entirely from non-European sources in 1944.

How quickly this trade is reestablished will depend upon the rapidity with which the production and export capacities of the European economies are restored. No conjectures on this score are ventured here. It may be significant, however, that after World War I, when the disruption of transportation, production, and trade in central Europe was extreme, the Continental European countries were nevertheless able to export to overseas markets, in the first two post-war years, goods valued at 5 billion dollars, of which 800 million were exported to the United States.[7]

The 6 billion dollar level of imports projected in *Foreign Trade After the War* would be reached, if it is reached, only after the resumption of trade with the countries of eastern and southeastern Asia. These countries accounted before the war for a fourth of total imports into the United States, although they may account for a smaller proportion after the war.

Exports will be subject during the transition period to a number of extraordinary influences. The President's letter to Mr. Crowley released by the White House on September 29, 1944 makes it clear that (subject to Congressional approval after June 30, 1945) Lend-Lease supplies will continue to be furnished after the end of the war in Europe "* * * in whatever amounts are necessary for the most effective prosecution of the war * * *. The amount and nature of the aid necessary after the defeat of Germany is closely tied up with the strategic plans for the Pacific war, and the programs for reconstruction and reconversion of industry to civilian needs which we and our Allies work out on a basis of mutual understanding. * * *"

The value of Lend-Lease shipments in 1944 will be approximately 11 billion dollars, although the annual rate of such exports after the middle of the year will apparently be somewhat lower. Their value during the transition period will be largely a matter of policy determination.

For present purposes and without any pretense of forecasting the actual volume, it has been assumed that Lend-Lease shipments in the interval between victory in Europe and victory in the Pacific will be less than half the current rate or, say, 4 billion dollars on an annual basis. Although Lend-Lease exports differ from ordinary exports in that there is no immediate payment by the recipient foreign countries, still they do represent a demand for a wide variety of military and civilian goods for shipment overseas which will presumably persist, although in diminishing volume, for some time.

The President's letter to Mr. Crowley and subsequent pronouncements by spokesmen for various Government agencies at the National Foreign Trade Convention in October removed any remaining doubt regarding the rapid relaxation and abandonment of domestic controls affecting foreign trade once the military resistance of Nazi Germany is overcome.

The relaxation and abandonment of export controls will make it possible for both the pent-up demand for United States products and the heavy current demand arising out of the present high levels of economic activity in certain foreign areas to assert themselves. The accumulated demand of foreign countries for consumer durables, which have not been obtainable for export in significant amounts in 1942, 1943, and 1944, may be estimated conservatively at 2–2.5 billion dollars.

Some of these consumer durables (e. g., automobiles) will not be immediately available in the quantities sought, but other types of goods, such as metals in semifinished forms, heavy machinery, chemicals, and a wide variety of specialties, will be available for export in large quantities.

To the deferred demand for United States products resulting from restrictions on exports during the war and to the demand for these products which will result from high levels of income in many countries not devastated by war, there must be added the pressing relief and reconstruction requirements of the war-devastated countries, as well as the requirements for long-delayed developmental programs of other countries.

These requirements will certainly run into several billions of dollars. Relief and immediate reconstruction requirements will be heavily concentrated in the period of a year or 18 months following the end of major hostilities in Europe. Other reconstruction requirements will be spread out over a period of 5 years or even longer.

Some idea of the magnitude of European requirements for goods from oversea sources may be indicated by actual imports into Continental Europe from oversea countries in the period immediately following the last war. These imports were placed by the League of Nations at 9.8 billion dollars in 1919 and at 7.6 billion in 1920 as compared with 5.4 billion in 1915.[8] Imports from the United States were 4.1 billion dollars and 2.9 billion, respectively, as compared with 1.1 billion before the war. Thus, most of the increase was in imports from the United States.

The extraordinary prospective demands of the rest of the world for United States goods during the transition period will be supported by a considerable accumulation by foreign countries of gold and dollar balances. According to a private authority, the combined amount of these holdings may reach 22 billion dollars by the end of 1944 as compared with about 14 billion at the end of 1941, both exclusive of the gold holdings of the U. S. S. R.[9]

Nothing like the whole amount will be used for the purchase of American goods, since the total includes gold held as required or customary reserves for national currencies and as prudent reserves for meeting balance-of-payments strains. However, considering the wide distribution of the holdings, it is entirely possible that extraordinary imports from the United States will be financed out of these accumulations at the rate of 1 to 2 billion dollars a year for several years.

Some countries, such as the liberated countries of Europe, will have no choice but to draw on their gold holdings to finance relief and reconstruction requirements unless outside financial assistance on an adequate scale is forthcoming. Other countries, such as the other American Republics, which together hold about 3.5 billion of gold and dollars, will be under heavy pressure to release a substantial part of their holdings to finance imports for developmental purposes, to repair the accumulated deficiencies during the period of close restriction on exports from the United States, and to meet the increased demand for imports arising from their expanded economies.[10]

The prospective amount of governmental and private relief shipments must be reckoned as another transition factor in the outlook for export trade. The United States Congress has appropriated 450 million dollars for the purchase of relief supplies to be shipped to liberated countries by the United Nations Relief and Rehabilitation Administration, and an additional 350 million may be allocated from Lend-Lease funds for the same purpose if required.

Besides these public foreign relief funds, there will be a considerable amount of private relief in the form of remittances to liberated and former enemy countries. Relief shipments, like Lend-Lease shipments, do not represent commercial exports in the ordinary sense, but they do give rise to an additional demand for goods for export and, therefore, have somewhat the same significance for the domestic economy during the transition period as do exports which are paid for by foreigners.

Although not reported in official export statistics, civilian supplies destined for use in areas under military control, for which the War Department has an appropriation of 562 million dollars for

[7] *Europe's Overseas Needs, 1919–20, and How They Were Met*, League of Nations, 1943.

[8] Op. cit.

[9] *National City Bank Bulletin*, August 1944.

[10] The Finance Minister of Brazil has recently indicated the probable disposition of Brazil's gold and foreign exchange holdings as of the end of 1943 as follows: Legal reserve for note circulation, 125 million dollars; deferred imports of machinery and equipment, 90 million; deferred demand for durable consumer goods, 25 million; repatriation of refugee capital, 25 million; reserve to meet short-term fluctuation in Brazil's balance of payments, 100 million; total estimated requirements, 365 million out of gold and foreign exchange reserves of 454 million. (The gold and foreign exchange reserves of Brazil continued to rise during 1944, as did those of many other countries.)

the fiscal year 1945, are to be regarded in the same light.

As a factor operating in the opposite direction, that is, to curtail the volume of exports from the United States, there are the reparations and other settlements of war obligations between and among the belligerents. For example, the reparations to be paid by Rumania and Finland to the U. S. S. R. will require the making by these countries of what are for them heavy deliveries of the commodities which constitute their principal normal exports. Obviously, what is delivered as reparations cannot be sold in exchange for goods from the United States and other sources of supply, and countries in the position of Rumania and Finland cannot reasonably be expected to buy American goods even on a prewar scale during the period in which reparations are paid.

All factors considered, it is easily possible that United States exports, exclusive of Lend-Lease shipments, should rise rapidly from their present level of somewhat less than 3 billion dollars on an annual basis to at least double this figure during the transition period.

It will be recalled that in the 2 years following the last war, when the principal factors involved were the same as those which will affect trade following victory in Europe, the value of exports reached a level of 8 billion dollars annually. But these exports were financed to a large extent out of loans by the United States Government and would thus be more comparable with total exports, including Lend-Lease shipments, than with "cash" exports alone.

Total exports may be perhaps 10 billion dollars at an annual rate during the interval between the end of hostilities in Europe and the end of the conflict in the Pacific. Furthermore, commodity prices in 1919–20 were much higher than they are now or are likely to be. The conjectured "cash" export volume of 6 billion dollars during the transition period would be roughly the equivalent of 9 billion at 1919 prices and 11 billion at 1920 prices.

Foreign Trade and Reconversion

The general significance of greatly expanded foreign trade for easing the problem of reconversion in domestic industry is readily apparent. The danger is that it should be overemphasized in one direction and underemphasized in another.

The prospective increase in non-Lend-Lease exports during the transition period, which has been placed here at 3 billion dollars, is small as compared with a shrinkage of 20 billion dollars in war production resulting from, say, a cut of one-third in the demand for combat munitions following the defeat of Germany,[11] and the larger reduction now generally accepted as probable.

Larger exports will help to take up the slack throughout the economy, but there can be no question of taking up all or any major portion of the slack through foreign trade. Furthermore, total shipments abroad, including Lend-Lease shipments, will be decreasing rather than increasing. On this basis, reconversion will remain largely a domestic problem.

On the other hand, the expansion in non-Lend-Lease exports after victory in Europe will give more support to the economy than might be deduced from the bare magnitude of the projected increase. This follows from the fact that foreign demands for our products will be heavily concentrated in those industries which have undergone the greatest expansion during the war and which face, therefore, the most severe problems of reconversion. The conjectured annual export total of 6 billion dollars for the transition period may be distributed roughly as follows by broad commodity groups:

Commodity	Amount (millions of dollars)	Percent of total
Agricultural products (raw cotton, rice, leaf tobacco, citrus fruits, other fruits and preparations, wheat and flour, meat products, other)	900	15
Machinery (electrical, industrial, agricultural, office appliances and other)	2,400	40
Automobiles, trucks, and other vehicles	200	3
Metals and manufactures	1,200	20
Petroleum and products	400	7
Other products (chemicals, wood and paper, textiles, rubber goods, naval stores, coal, and miscellaneous)	900	15
Total	6,000	100

Thus, perhaps 60 percent of the export demand during the transition period will be for metals and machinery; that is, for the products of heavy industry. It is in heavy industry, of course, that the most serious problems of excess capacity will appear as war production is curtailed.

Role of Foreign Investment

Under existing conditions a volume of post-war exports in excess of approximately 6 billion dollars a year can be achieved and maintained only through new foreign investment. The reasons for this, all related to the problem of the dollar availabilities of foreign countries, are: (1) the limitation on the volume of United States imports of raw materials inherent in the derived nature of the demand for them; (2) the limitation on imports of some raw materials and foodstuffs and virtually all finished manufactures fixed by tariffs or excise taxes; and (3) the fact that service transactions in the balance of payments of the United States have not in the recent past, and may not in the longer-run post-war period, yield any substantial net surplus of dollars to foreign countries for the purchase of American goods.[12]

The amount of new foreign investment after the war is therefore the crux of the post-war export volume over and above normal expectation on the basis of past relationships. Before considering what this amount might be, certain misconceptions regarding foreign investment and the foreign investment experience of the United States should be cleared away.

There is, in the first place, the rather common notion that exports supported by new foreign investment represent a necessarily temporary and inherently unstable state of affairs. This belief, insofar as it is held in the United States, represents a false deduction from the experience of the 1920's.

Under the circumstances in which they were made, many of the foreign loans floated in our market during that decade were unsound and did create a highly unstable situation in our foreign trade. But to conclude from these familiar facts that the United States should not invest abroad on a large scale would be entirely unwarranted.

What proved to be an uncertain equilibrium was uncertain partly because of the character of the foreign loans that were floated and partly because of their sudden cessation, but largely also because of the instability of the whole domestic and international situation.

There is no fundamental reason, however, why well-conceived foreign investment may not proceed without definite limit either as to amount or as to period and with mutual advantages to the countries providing and the countries receiving the capital. The countries receiving the capital secure the higher levels of national income produced by a more rapid development of their natural resources and a more rapid industrialization of their economies than they could achieve by the employment of domestic capital alone. Because of these high levels of income and purchasing power, the countries supplying the capital find larger markets for their manufactured and other products.

There is, in the second place, the misconception that a creditor country must have an excess of imports in its foreign trade, or, more accurately, an excess of payments on current account exclusive of service on foreign investment if it expects to realize on its foreign investments. This is obviously true of a passive creditor or "rentier" country which is making no net new foreign investments, but it has no application to an active creditor country which is making new foreign investments.

Depending upon the structure of its balance of payments as a whole, such a country may well have a persistent excess of exports in its foreign trade over an indefinite period. The United States was during the 1920's, and will be again after the war, (1) a creditor country with respect to long-term investments, (2) a lending country, and (3) a country with an export balance of trade.

There is nothing in such a combination of circumstances which of itself prevents the regular receipt of interest, dividends, and amortization and depreciation charges from foreign investment in

[11] See "Magnitude of Transition from War Production" in SURVEY OF CURRENT BUSINESS for August 1944.

[12] So long as large United States forces are stationed abroad, expenditures by them and for their maintenance will be an important source of dollars for foreign countries. In the longer run the principal factor of increase will probably be the expenditures of American travelers for foreign travel and the expenditures of American civilians living abroad on incomes received from the United States.

excess of interest, dividends, and similar charges paid to foreigners on their investments in the United States. To be sure, imports must increase relative to exports unless new investments are made at a steadily increasing rate, as would be necessary to support larger and larger service on old investments together with a continuing surplus of exports. Even this qualification may disappear, however, in a rapidly expanding world economy.

A third erroneous but widespread idea is that the foreign loans and investments of the United States since the last war were almost entirely lost. There was, on the contrary, a substantial net return to the United States as a whole on private foreign investments made during this period, as shown by the following calculation covering both foreign dollar bonds and direct investments abroad:

		Billions of dollars
1. What the United States put in—		
Estimated investments abroad at end of 1919	6.5	
Net new investments abroad from 1920 through 1940 (gross new investments abroad of 11.8 billion dollars less amortization receipts on foreign dollar bonds and net resales of foreign securities to foreigners of 4.9 billion)	6.9	
Total		13.4
2. What the United States got out—		
Value of investments abroad at end of 1940	9.8	
Income payments received on investments abroad from 1920 through 1940	13.9	
Total		23.7
3. Excess of what the United States got out over what the United States put in		10.3

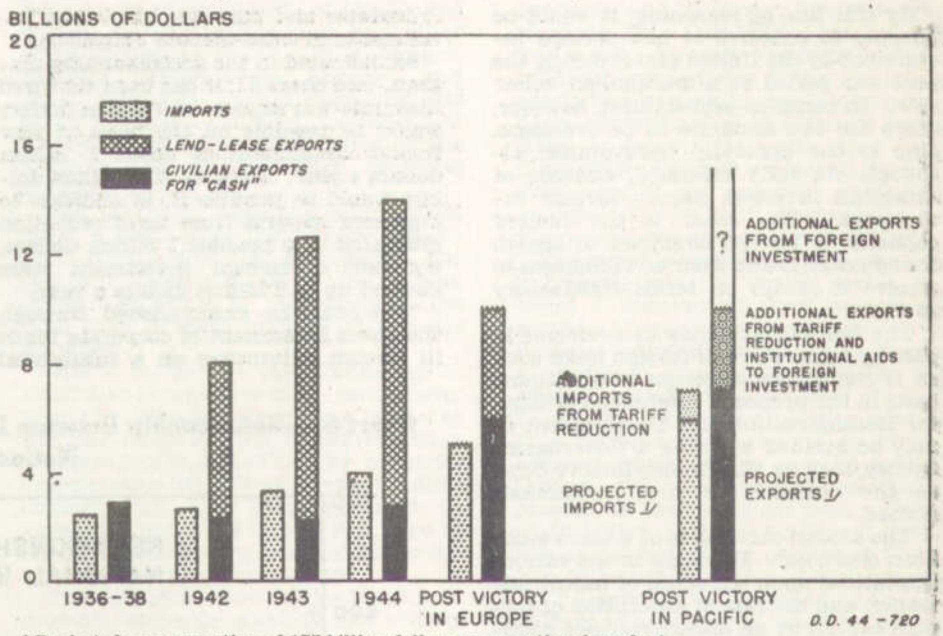
This computed net return to American investors as a group from foreign investment is in contrast to the losses suffered by many individual investors, especially those who bought foreign securities shortly before the wave of defaults in the early thirties. The "average" investor with well-diversified holdings abroad not only got his money back but also a substantial sum in addition.

The record with respect to our total long-term holdings abroad stands despite the original unsoundness of many of the investments and despite the extremely adverse conditions for servicing them during the 1930's. It may be noted that service was maintained throughout the depression on approximately two-thirds of our total foreign bond holdings.

The record with respect to United States direct investments abroad, considered alone, is one of generally high returns as measured either by total earnings or earnings transferred to the United States.

During the period 1920–29 (for which no remittance data are available) and in 1938–40, total earnings on direct investments averaged 6.9 percent and 7.4 percent, respectively; during the years 1930–40, earnings *remitted* to the United

Chart 5.—Foreign Trade of the United States, Pre-War, War and Post-War



[1] Projected on assumption of 175 billion dollars gross national product.

Source: U. S. Department of Commerce.

States averaged 4.3 percent (2.7 percent in 1930–34 and 5.8 percent in 1935–40). These returns are the more remarkable since no allowance was made in the computations for inactive investments yielding no return, or for investments in projects not yet developed to a productive stage, and since they include the relatively low returns from investments in public utilities.

Thus, neither theory nor experience indicates that there is anything inherently unsound in continued new foreign investment by a country in the position of the United States, or any necessary instability in the increased exports of goods which such investment generates. It remains, however, to consider the prospective volume of new foreign investment by the United States.

No explicit assumption regarding the rate of foreign investment was made in *Foreign Trade After the War*. However, since receipts and payments on account of service transactions were expected to be approximately equal, the difference between the projected 7-billion dollar level of exports and 6.3 billion of imports represented a purely nominal allowance for net new investment abroad.

The actual amount could be many times higher and the level of exports higher in proportion. There are compelling economic reasons why it should be.

The United States needs greatly increased foreign markets in order to utilize productive capacities expanded during the war but, as we have seen, will find only moderately larger markets abroad under the influence of the readily discernible factors in the post-war foreign situation.

Moreover, considering the rate of savings associated with a gross national product of 175 billion dollars, the United States will be in a position to supply billions of dollars of new capital to foreign countries. At this level, corporate and individual savings might amount to as much as 25–30 billion dollars (gross) per annum.

These savings could be invested productively at home, although the use of such a sum yearly would require adjustments in the domestic economy which may be avoided by investment abroad. Furthermore, a substantial portion of the total savings can be more profitably invested outside the United States for the simple reason that returns to capital, where capital is relatively scarce, are higher than where it is relatively abundant.

Foreign investment constitutes a natural outlet for domestic savings and a means of maintaining domestic full employment, at least unless and until other solutions to the savings-investment problem are found.

On the supply side, therefore, there is no close limitation on the amount of new foreign investment by the United States if individual and corporate investors are willing so to utilize their savings.

With respect to demand, there are, first, the needs of the war-devastated countries for capital for reconstruction amounting to billions of dollars and concentrated in the immediate post-war period and, second, the needs of underdeveloped countries for developmental capital in large amounts over an indefinite term of years.

Both demands will be materially larger than they were after the last war, when American investments abroad of 11 billion dollars, including intergovernmental loans in 1919 and 1920 of 3 billion dollars, were made over a 12-year period ending with their virtual cessation in 1930. Furthermore, while other sources existed at that time, there will be after the present war no other important source of international capital besides the United States.

By this line of reasoning, it would be possible to conceive of new foreign investment by the United States during the post-war period at a multibillion-dollar rate. In terms of probabilities, however, there are two obstacles to be overcome. One is the generally unfavorable, although not fully informed, attitude of American investors toward foreign investment. The other is the limited capacity of foreign countries to absorb foreign capital and their unwillingness to receive it except on terms satisfactory to them.

The first obstacle may be overcome in part by a guarantee of foreign loans such as is contemplated on an international basis in the proposed International Bank for Reconstruction and Development or may be avoided by using a Government agency such as the Export-Import Bank as the channel for new investments abroad.

The second obstacle is of a more stubborn character. It resides in the various limitations upon the speed of industrialization and the rate of absorption of foreign capital by an underdeveloped country. One of these is population and the size of the labor force equipped to use modern tools. Another consists of the necessity of creating certain facilities, such as communications and power, before extensive manufacturing operations can be begun. Then there are political and social adjustments involved in industrialization, some of them of a serious nature.

Because of these limitations, the abstract requirements of a country for capital equipment and for foreign capital must be heavily discounted, except under conditions of complete state direction. Furthermore, the whole pattern of foreign investment must be changed from what it was in the 1920's if capital from the United States in large volume is to be accepted by other countries.

Investments in the future cannot be of such a character as to involve any substantial degree of alien control of natural resources and industries. They cannot be made on onerous terms as regards interest and repayment. They must be made in recognition of the responsibility of leading industrial powers for maintaining conditions in the international economy which will make the servicing of foreign investments possible without undue strain.

At least so far as private capital is concerned, foreign investment after the war should, to the maximum extent possible, take the form of equity or "direct" investments. Such investments are much less of a burden on the international exchanges in periods of declining trade because they are subject to variable returns in local currencies rather than to fixed charges in dollars.

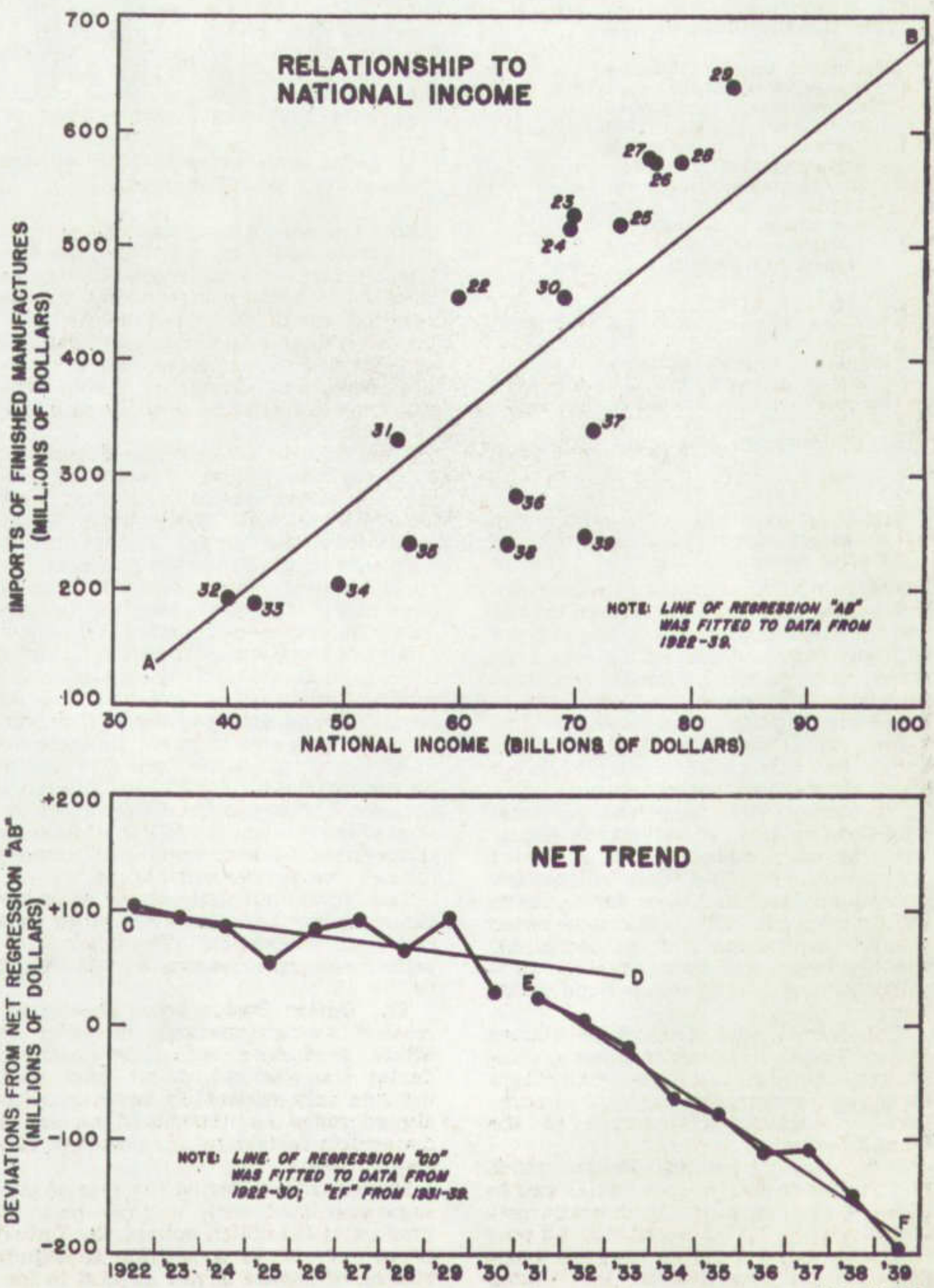
The fact that they are made by business concerns which are risking their own capital and supplying technical and managerial skills along with the capital tends to insure the productiveness of direct investments. For these reasons, among others, direct investments of American capital in foreign countries have been more satisfactory on the whole to investor and borrower alike than investments in fixed-income obligations.

As indicated in the accompanying diagram (see chart 5), it has been ventured that post-war exports of 7 billion dollars would be possible on the basis of new foreign investment of about 1 billion dollars a year. Exports of 10 billion dollars would be possible if, in addition to increased imports from tariff reduction estimated at a possible 1 billion dollars, the rate of foreign investment were stepped up to 3 billion dollars a year.

This could be accomplished through the direct investment of corporate funds in foreign enterprises on a substantial scale and through the proposed International Bank and an enlarged Export-Import Bank, together with the larger volume of unassisted foreign investment which these institutional aids might induce.

Annual exports above 10 billion dollars would be possible as a result of a still higher rate of new foreign investment. What the rate might be is highly conjectural. It depends upon the boldness with which investment opportunities are seized both by those who have capital to invest and by those who can put it to use; upon the care and foresight with which developmental programs are

Chart 6.—Relationship Between Imports of Finished Manufactures and National Income



Source: U. S. Department of Commerce.

planned; and upon the success which attends the efforts to promote, through international cooperation, a balanced growth of the world economy.

Bretton Woods and Foreign Trade

The proposals formulated at Bretton Woods for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development have, as one of their primary objectives, the stimulation of a renewed flow of international capital. The proposed Bank, as a wholly new institutional device for reviving the flow of international capital, has special significance for the foreign trade of the United States.

Most of the loans made or guaranteed by the Bank in the first years of its operations will be dollar loans and as such will provide an outlet for our savings and directly increase our exports. The possible amount of these loans and the rate at which they will be made become, therefore, matters of crucial importance for post-war foreign trade.

The total loans which may be made or guaranteed by the International Bank are fixed in its statutes at the amount of its subscribed capital of 9.1 billion dollars, plus the amount of its reserves and surplus. Prudent management will probably hold the actual volume of loans through its facilities below this maximum, say to 8 billion dollars.

The rate at which the resources of the Bank will be used depends upon a number of factors which cannot be reduced to dollar terms. Among these are the extent of the demand for loans for reconstruction and developmental purposes, the receptiveness of the private capital market to the obligations of the Bank and the obligations guaranteed by it, and the disposition of its management. The annual volume of loans might be perhaps 1 billion dollars as a minimum and 2 billion as a maximum, beginning in 1946 as the first full year of operation.

It should be borne in mind in this connection that the proposed Bank is closely limited by its statutes as regards the type of loan which it may make or guarantee.

The Bank may make or guarantee loans, except in special circumstances, only for specific projects of reconstruction or development which have been recommended by a competent committee. When the member in which a project is located is not itself the borrower, its full guarantee of the loan is required. And, in making or guaranteeing a loan, the Bank shall have due regard to the prospects of repayment.

These limitations, coupled with the restriction on the total amount of the Bank's commitments, are designed to obviate any possibility of indiscriminate lending in the manner of 1920's. They are intended also to make the obligations which the Bank guarantees, as well as its own obligations, readily acceptable to private investors.

The Bank, by operating under these safeguards and by offering to the investing public the joint and several guarantees, up to the amount of their subscriptions to its capital stock, of the United States, the United Kingdom and other British countries, the U. S. S. R., France, Belgium, Netherlands, Norway, and other countries, should overcome the major obstacle to foreign investment of United States capital constituted by the disfavor with which foreign securities are regarded.

The proposed Monetary Fund would make a less obvious but no less important contribution to maximizing the post-war foreign trade of the United States. In terms of this analysis, the fund may be said to have two major purposes.

One is to achieve the elimination of restrictive exchange controls carried over from the 1930's or imposed as a matter of wartime necessity and to prevent their reimposition in the future by countries experiencing balance-of-payments difficulties. This first objective must be gained if there is to be any real hope of reaching the foreign trade goals envisaged for the post-war period.

The second purpose of the Fund is to promote exchange stability and orderly exchange adjustments. This, too, must be realized if a high level of peacetime trade, once established, is to be sustained. Moreover, achievement of this second purpose would contribute not only to an expansion of international trade but also to the revival of international investment upon which the post-war foreign trade of the United States so largely depends.

Role of Tariff Reductions

A multilateral reduction on a substantial scale of tariffs and other barriers to the exchange of goods between countries is clearly required for raising international trade, our own included, to high peacetime levels.

From the particular point of view of the United States, further tariff reduction is essential to a successful foreign investment policy. For, if a steadily increasing volume of foreign investment is to be serviced by foreign countries without placing restrictions on our exports, it is necessary to provide the broadest possible basis for imports into the United States and the largest possible flow of dollars into the hands of foreigners from this source.

A policy of further tariff reduction by the United States, under a broad international program of freeing and stimulating the flow of trade, does not call in the immediate future for a more evenly balanced trade as such by this or any other means.

On the contrary, what the early post-war situation demands is a heavily unbalanced trade through foreign investment as a means of creating employment. Furthermore, as has been pointed out elsewhere, there is no contradiction between a rising volume of imports as the vehicle for the transfer of service on foreign investment and a persistent surplus of exports supported by new foreign investment.

However, a more evenly balanced trade tends to be a larger trade because it militates against the imposition of trade barriers; and a larger two-way trade supports more jobs than a smaller two-way trade. Imports which are noncompetitive, such as many distinctive foreign specialties, by making possible larger exports, contribute to employment just as much as exports from any other cause. Competitive imports promote a more efficient use of our resources and in this way raise the Nation's productivity, real wages, and the general level of living.

The possible magnitude of the increase in imports into the United States, as a result of substantial tariff reduction is suggested by a comparison of the relation between national income and imports of finished manufactures before and after the tariff of 1930. (See chart 6.) In general, there was a positive relationship between the value of imports of finished manufactures and the national income. This relationship may be expressed by the statement that a change of 10 billion dollars in national income was associated with a change of 80 million dollars in the value of such imports.

The striking fact, however, is that not only has the value of imports declined very sharply since 1922 for any given level of national income, but also that this decline became much sharper after 1930.[13] The sharper decline after 1930 can apparently be attributed to the general increase in import duties in that year. Substantial further tariff reduction, preferably by multilateral action, or, this failing, under the Reciprocal Trade Agreements program, would presumably result, therefore, in an important increase in imports and consequently in exports.

For present purposes, the extent of the possible increase has been placed at 1 billion dollars, although it could be much greater. This estimate is carried into chart 5 to illustrate the potentialities of post-war trade.

Elements of a Foreign Trade Policy

Here, then, are the elements of a post-war foreign trade policy for the United States: (1) a high and reasonably stable level of domestic employment and production; (2) foreign investment on a large scale; (3) participation in a world movement to lower tariffs and remove other impediments to international trade.

To these might be added a fourth element not considered in this article, namely, the planned conservation of certain depleted and wasting natural resources in favor of imports.

A high and sustained level of domestic employment is essential to a high level

[13] If residuals are plotted from the regression line AB shown on the upper half of chart 6, the nature of the shift in these imports through time becomes apparent. Lines CD and EF shown on the bottom half of the chart represent regressions covering the years 1922 through 1930 and 1931 through 1939, respectively. These trends indicate that on the average the value of imports declined about 10 million dollars per year in the former period and about 50 million in the latter period. It may be noted also that the value of imports is very closely approximated by the use of the national income regressions and the two trends.

of foreign trade because it induces a large volume of imports and because a large volume of imports makes possible a large volume of exports. A large volume of exports in turn helps maintain high domestic employment.

The reasoning is circular but nevertheless sound, since domestic and foreign trade react upon each other just as trade in one section of the United States reacts upon trade in other sections of the United States. What this means is that when domestic labor and productive capacities are more fully utilized we have not only more jobs from domestic trade but also more jobs from foreign trade.

It is possible to envisage ways of coping with the problem of full employment which rely upon purely domestic policies. There are weighty reasons, however, for assigning an important role to foreign trade and foreign investment in the total program. The task is likely to be so formidable that it will be wise to rely on a broad range of measures.

Foreign investment, as a profitable outlet for domestic savings and production, constitutes a partial solution which will ease somewhat the difficult readjustments facing American industry.

Moreover, a large volume of foreign trade and foreign investment, by providing other countries with the commodities they need for consumption and to restore and build up their capital equipment, can be a powerful factor in promoting international stability and peace—provided always that the foreign trade policies of this and other countries are pursued in a cooperative spirit rather than in a spirit of insolation and rivalry.