

LOAN TO BRITAIN

...investment in world economic unity

We believe that it is in the interest of American Business for Congress to approve the proposed loan to Britain. Our reasons are stated in this editorial, which will appear in the April issues of 25 McGraw-Hill publications. You may, if you care to do so, quote or use any portion of it with or without credit.

CONGRESS should give swift and confident approval to the proposed loan to Great Britain.

Few other issues of foreign policy in the present troubled world lend themselves to such clear appraisal of where our National interest lies.

In simplest terms, the question is whether we should extend to Great Britain a credit of \$3¾ billions (plus \$650 millions in payment for lend-lease balances) in return for her promise to repay principal with interest over a fifty year period starting at the end of 1951, and her pledge to give the fullest possible support to the kind of world trading system which it is the declared policy of both the United States and the United Nations Organization to promote.*

WE CAN AFFORD TO MAKE IT

The sum we hazard is not inconsiderable, but financial risks have meaning only when related to resources. The line of credit provided by the loan will amount, at most, to a claim on 2/5 of 1 per cent of our gross output for the five to six year period over which it may be used. The interest rate charged, while moderate, is higher than our Treasury is paying upon current borrowings. The risk entailed is well within our resources as a creditor. In the considered judgment of the American and British technical experts who thrashed through the intricate accounting for three painful months, the amount and terms offered will suffice to allow Britain, under rigid austerity, to relax her system of foreign trade restrictions, and to expand exports sufficiently to pay her debt commitments.

Against the considered risks of extending the loan, there must be weighed the certain costs of refusing it. Without the loan, Britain has no recourse but to maintain and extend the system of bloc trading which she adopted under stress of world depression and world war. If that is the route Britain follows, she will carry with her a large part of the sterling area countries—all British Commonwealth and Empire countries (except Newfoundland and Canada) plus Egypt, Iraq and Iceland—and many of the nations with which the United Kingdom has payment agreements (Argentina, Bolivia, Brazil, Chile, Paraguay, Peru, Uruguay, Belgium, Czechoslovakia, Denmark, Finland, France, Netherlands, Norway, Portugal, Spain, Sweden, and Turkey).

Altogether, the United Kingdom's orbit accounts for more than half of the world's imports

*A comprehensive analysis of the terms, the background and the stakes of the British Loan will appear as a Report to Executives in the March 30 Issue of Business Week, a McGraw-Hill publication.

and exports combined. It likewise is crucial to the trade of the United States. In the years immediately preceding the war, the sterling area and payment-agreement countries provided just under one-half of both the import and export trade of this country.

Russia, of course, will continue to conduct her foreign commerce exclusively upon a state-trading basis. Before the war, the Soviet Union transacted only a little more than 1 per cent of foreign trade business, but its future sphere of influence will be large—conceivably embracing as much as 30 per cent of total international trade.

WE CANNOT AFFORD TO REFUSE IT

If the weight of British influence in foreign trade is thrown toward the Russian pattern rather than toward ours, it is apparent that bloc trading, with all of its supporting devices—bilateral deals, exchange controls, import and export quotas, subsidies, currency manipulations and the like—will be the prevailing pattern for foreign transactions.

In self-protection, the United States would have no alternative but to conform to the dominant pattern. We should be forced to form our own bloc, and to enter into active economic warfare in bidding for trade concessions against the offers of our rivals. How well we would do this is problematical. To the game we would bring the largest economic potential in the world. But our handicaps would be equally impressive.

First, under a system in which political and economic motivations are inextricably fused, a democratic nation, and particularly one with a tradition of freedom in its domestic enterprise, would operate at a great disadvantage. We should inevitably be driven toward more and more government control of our entire economy.

Second, with a pattern of foreign trade in which our exports habitually are greater than our imports, our bargaining position in international trade is much weaker than our over-all economic strength would suggest. Under state-controlled trading we should still find it difficult to compete successfully without resort to loans, and under these conditions our loans would be supporting a system alien to our choice and interest.

Third, under a regimented system which made economic decisions subservient to political considerations, it is virtually certain that the volume of world trade would shrink. That was the clear experience of the nineteen-thirties. Thus, the standard of living in the United States would suffer in common with all others, and we would be forced into a particularly drastic curtailment of certain war-expanded segments of our economy,

at the very time when a large portion of the world is most in need of the products they can produce.

WEIGHING THE ALTERNATIVE COSTS

In the years immediately ahead it is certain that from two-thirds to three-quarters of all international trade will be transacted either in pounds or dollars. If both circuits are linked in a determined effort to restore competitive world markets, to which buyers and sellers alike have access without discrimination, that will be the dominant system of foreign trade. If the sterling group with its satellites organizes a closed grid, our exclusive effort cannot preserve the trade pattern that we believe offers most to us and to the world.

No one can accurately measure the costs to the United States of refusing the loan and accepting the consequences. But unquestionably they would dwarf to insignificance the sum risked in the proposed credit. We would lose through the shrinkage of our trade, through the wrench of violent readjustments in our production patterns, and eventually through the curtailment of our over-all output below what it would be under an open rather than a closed system. We would lose heavily in economic liberty under a procedure that can be followed with success only by a close regimentation of production as well as trade.

Most of all, we would lose in prestige, through demonstrating that we are still unprepared to exercise a world leadership to which our giant stature as the possessor of almost half of the world's economic capacity entitles us. Once again we would be exhibiting to the world political feet of clay supporting an economic frame of heroic proportions.

IT IS FAR FROM A "SOFT" BARGAIN

There has been some disposition in this country to regard the loan to Britain as a somewhat "soft" and generally unprecedented transaction that smacks of charity. This is the sheerest nonsense.

In the first place, the kind of economic system we want has never functioned and cannot operate now without a lender. For many decades prior to World War I Great Britain filled the creditor role. In 1913 her foreign investments totaled \$19 billions, and she not only made such transactions pay, but they proved her salvation through two grim wars. Her credits helped in the industrial development of a large segment of the world, including the United States. Of all the nations in the world, only the United States can assume now the mantle which Britain no longer can support.

In the second place, the terms of our proposed loan to the United Kingdom are far from easy.

Britain put a substantially greater proportion of her relatively meager resources into the war than we did, and dissipated a large share of her foreign holdings in the process while accumulating an outside debt of crushing magnitude. On a per capita basis her internal debt is greater than ours. Many Britons feel that our proposed loan is too small, and its terms too rigorous. If the amount proves to be inadequate, we shall have to consider supplemental aid at a later date. But the majority believe that the present offer gives a fighting chance to restore the system of world trade that we and they both want, and upon which the World Bank, the Monetary Fund, and the International Trade Organization under United Nations aegis are based. It is certain that without our loan all of this will go by the board.

In the third place, our proposed loan is far from being without precedent. Canada, which is linked by far closer economic ties to us than to the Empire, already has provided for a loan to Britain of \$1,200,000,000. This amounts to almost a third of what we propose to lend, although Canada's population is less than 10 per cent, and her income is little more than 5 per cent of ours.

SHALL THE UNITED STATES LEAD OR FOLLOW?

The way to exercise leadership is to lead. Nothing could be more futile than to go half way toward establishing the economic order for which we stand, and then withhold the crucial measure that will make it work. Failure to approve the loan to Britain will be a clear default of leadership. Failure to approve it promptly will dissipate its effectiveness.

It has been officially stated that the British loan is a unique case that will establish no precedents for further credits to other nations. It is exceptional in its importance to our aim. But if the United States expects to make its economic program the dominant one for world trade, it must continue to exercise the creditor function without which that program cannot persist.

The most that we should ask is that future loan transactions be scrutinized as was this one to see that they offer comparable security and comparable return in support of the program for which we stand.

For the loan to Britain, it can be said that never before has one nation had an opportunity to gain so much at so little risk as has the United States in this uniquely decisive case.

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