

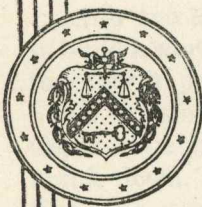
An address by

Fred M. Vinson

Secretary of the Treasury

CHWABE COLL
**THE LOAN TO BRITAIN—
A SOUND
ECONOMIC STEP**

At a meeting of the
American Academy of
Political and
Social Science,
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THE LOAN TO BRITAIN

A Sound Economic Step

The close of the war has brought to us and to the entire world new problems that are difficult and important. There is the problem of reconverting our industries to peacetime needs and maintaining a high level of production, employment, and national income. There is the problem of making a lasting peace through the cooperation of the United Nations. And there is the problem of restoring a world economy shattered by 6 years of destructive war.

All of these problems are difficult. But we have no reason to be disheartened. We have met and solved difficult problems before. The very fact that we recognize them, that we are prepared to deal with them, is an encouraging indication that we are on the way to succeed. No doubt we shall make some mistakes; but we shall not repeat the great mistake we made after the last war—the mistake of doing nothing. We have learned a great truth: Eternal vigilance is the price not only of liberty but of peace and prosperity.

All of these problems are interrelated. We cannot have a lasting peace without good economic conditions throughout the world. Neither can we have enduring prosperity throughout the world without lasting peace. We cannot have a high level economy in this country without a stable world economy. Neither can the world economy be stable without prosperity in this country.

After the last war we had an opportunity to build a world in which countries could work together in peace and prosperity.

We muffed that opportunity. International economic relations were allowed to break down. Instead of economic cooperation, the world resorted to economic warfare. Instead of economic statesmanship, countries resorted to exchange depreciation, exchange controls, trade restrictions, bilat-

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eral clearing arrangements, and similar measures.

The fact is that the basic international economic problems were never solved. And now the war has multiplied many-fold the difficulties of the prewar period. Customary trade relations have been disrupted. New measures of restriction and discrimination have been introduced to meet the special conditions of war; and many countries will be tempted to continue and even to perpetuate these wartime devices.

The shape of the postwar world is being formed by what we do right now. Unless steps are taken to prevent it, there is a real danger that countries will turn again to economic isolation, and that the world will again be divided into conflicting economic blocs. Peace and prosperity cannot flourish in a climate of suspicion, mistrust, and economic sword-play.

The people of all the United Nations have given ample evidence of their earnest desire to eliminate the economic causes of conflict. But they cannot pursue this course until they have reasonable assurance that their war-strained economies will function. That is a practical problem that faces us now, and the proposed loan to Britain, which is subject to approval by the Congress, is a specific example of facing the problem.

Under the necessity of war, Britain introduced extensive trade and exchange controls in order to mobilize for total war. The use of foreign exchange was stringently limited by complete control of imports and payments outside the group of countries known as the sterling area. Imports from the sterling area and other expenditures within this area were paid for in sterling—British currency—which was held in the form of deposits in London or invested in British Treasury bills. Sterling balances could be used freely only for payments inside the sterling area. The dollars and other convertible currencies earned by sterling area countries were placed in a common pool and were allocated for use where they were most essential for the war effort.

These measures enabled Britain to put all of the foreign exchange resources at her disposal into the war. All of the United Nations benefited because the force brought against the Axis was increased. But the continuance of these same measures after the war can have serious restrictive effects on production and trade in America and on world trade generally. They can imperil, or delay for many years, the restoration of a sound world economy.

Why, then, should there be any thought that Britain would continue these restrictive measures? Britain is in an extraordinary and probably unique situation in her dependence on imported food and raw materials and upon foreign trade. For this reason Britain stands to gain to an unusual degree from the efficient functioning of a world economy. But for the same reason Britain cannot risk the loss of the protection afforded by these wartime measures unless she can otherwise secure essential food and raw materials during the period in which she builds up her exports.

The war has seriously damaged Britain's export trade and her international economic position. Many of her foreign investments were sold to raise the money needed for the war, and, in addition, she became heavily indebted to foreign countries. A large part of Britain's merchant fleet was sunk during the war. Receipts from other services have also fallen, although they will probably recover with the expansion of trade.

The decline in British revenues abroad from investments and services must be offset by increased exports. There is no other way in which Britain can continue to buy the food and raw materials that are essential to the maintenance of her economy.

The expansion of her exports is primarily a problem for Britain to solve; but there is a responsibility on us and on other countries too. Even if British industries are in a position to export, they can succeed in exporting enough to pay for British imports only if there are markets abroad. That means that

the prewar volume of world trade must be substantially increased.

As part of her all-out war effort, Britain was forced to reduce her export trade sharply until in 1944 it was only 30 percent of the 1938 volume. Even with favorable conditions Britain will need several years to expand her exports sufficiently to pay for her imports. During those years, she must find some way to feed her people and her factories with food and raw materials.

The debts Britain has incurred to other countries to meet her war expenses overseas amount to the enormous sum of \$13 billion. These are held in blocked balances of English currency. The mere existence of the debt in this form compels Britain to limit stringently the use of her money in the markets of the world. Britain cannot deal with this problem as an ordinary debt. We must remember that this is a foreign debt, and for a foreign debt the sum involved is tremendous. Some means must be found by the British Empire to settle these sterling obligations.

These are the important problems which Britain must solve. The course she chooses will affect the economic well-being of the entire world. Before the war Britain was the largest importing and the second largest exporting country. But Britain's choice has even wider significance. Many other countries are so dependent on British trade that their policies are vitally linked to those of Britain.

Our own trade relations with Britain have always been close. Before the war, Britain bought 17 percent of our exports and the British Empire bought 42 percent. In fact, Britain and the British Empire were not only our best customer but also the best customer of the whole world, accounting for 27 percent of all world trade. That is why what Britain does to eliminate wartime restrictions and discriminations is so important to us and to the entire world.

Unless she has help in securing her essential import needs during the next 3 to 5 years, Britain would have to retain and extend the

wartime trade and exchange controls. Trade within the sterling area would be built up, while trade with the outside world would be kept to a minimum. We are a part of that outside world. In a real sense a British economic bloc would be established, based on preferences to countries within the bloc and discriminations against countries outside the bloc.

After more than 3 months of discussion, the representatives of the United States and England agreed on three major points. First, a conflict on international economic policy must be avoided. Second, Britain will need help in securing her essential imports while her export industries get back on their feet. Third, with such help, Britain would be able soon to abandon the wartime currency and trade controls.

From careful study, our representatives came to the conclusion that Britain will need a credit of \$3¾ billion to enable her to continue essential imports until world trade has revived and British exports have expanded. Even with this credit, the British people will have to continue to keep their belts well tightened. Their standard of living will be little different from the austere levels forced on them during the war.

The \$3¾ billion to be lent to Britain will be a line of credit on which Britain may draw during the next 5 years to pay for the imports she needs. No part of the loan is to be used in paying her debts to other countries. Britain must pay these debts from other resources.

An agreement was also reached on the settlement of claims arising from Lend-Lease and Reciprocal Aid and the sale of surplus property located in the United Kingdom. The net amount due to the United States from these accounts was fixed at approximately \$650 million. The broad terms provide that both sums will be repaid in 50 annual payments, beginning in 1951 with interest at 2 percent.

Obviously, we cannot foresee the future. There may be times, under depressed condi-

tions, when it will be impossible for Britain to make full payment under these agreements without serious consequences. Under such conditions, it is not in the interest of the United States to compel a default. It is better to do as our agreement provides: Accept the installments of principal due during those years, while waiving the interest payments, and as soon as those temporary conditions pass, resume the full annual payment of interest and principal. If a waiver in some year should be necessary, it will only be because Britain would otherwise be compelled to restrict imports of food and raw materials to a level that would endanger the health of her people and economy.

On her part, Britain undertakes to relax and eliminate the wartime currency and trade restrictions. Specifically, the British Government will make freely convertible into dollars all sterling received by Americans in payment for exports to the United Kingdom. Sterling balances acquired by Americans and arising out of current transactions will also be freely convertible into dollars.

Under the agreement the sterling area countries will be free—within a year, unless a longer period is agreed—to use the sterling they earn from exports for payments in any country they choose. In effect, under this financial agreement, many of the restrictive features governing the use of sterling will be abandoned at once; and as a result the so-called sterling dollar pool will be abolished.

On the settlement of the sterling balances accumulated during the war, Britain will make her own arrangements with the countries concerned. Britain has stated that she intends to make an immediate payment on these balances, that part of these balances will be written off as a contribution to the war effort, and that a large part will be funded and released over a period of years. These released funds will also be freely available for use in any country without discrimination.

The discussions in Washington were concerned with trade as well as financial problems. A joint statement of policy was issued

by the United States and the United Kingdom setting forth an understanding regarding a proposal for a commercial policy agreement among the United Nations to facilitate the expansion of world trade. An international conference is to be held next summer for the purpose of establishing an International Trade Organization, and of reaching an agreement to reduce the barriers to trade, to eliminate discriminations in trade, and to facilitate the maintenance of high levels of employment.

It is unfortunate that there have been some intemperate statements concerning the terms of the proposed loan. In Britain they have been called too hard, in the United States, too easy. They are, in my judgment, fair to both countries. They take account of Britain's need for aid and her ability to repay. They take account of the financial cost to this Government of providing aid to Britain. The interest charged Britain is reasonably comparable to what it costs this Government to borrow money.

The amount of the proposed British credit is large, but it is needed to do the job. Three and three-quarter billion dollars is a lot of do-re-mi in anybody's book. But war, including its aftermath, is costly business. This loan represents about two weeks of our expenditures for war toward its close. In my judgment, this is not an expenditure but an investment. It is sound business for America.

Much of the money involved will be used to finance increased exports to Britain. Increased exports mean more American production. More production means more income to American workers. Even more significant—the proposed program will mean access to more markets on an equal competitive basis for American business. In this way the loan helps to insure a continuing market for the products of American factories and farms. Large markets abroad play an important part in our domestic prosperity and full employment. This is a good investment. We cannot afford international economic anarchy.

The approval of the financial agreement with Britain will mark real progress in the restoration of a world economy. It will be a significant contribution to the prompt attainment of those objectives of order and freedom in the international exchanges that the Bretton Woods program has boldly set up as the basis for international trade and investment after the war. It will make possible an agreement among the United Nations to establish an International Trade Organization devoted to the maintenance of fair practices in international trade.

We, more than any other country, are concerned with the kind of economic world that is now being built. The fact is that we would be the primary target in the continued use of restrictive and discriminatory currency and trade measures. There is no doubt that we could take countermeasures. There is no doubt that we could defend ourselves if economic warfare should break out. But the cost to us and to the world would be reflected in decreased trade, decreased employment, and lower standards of living. Neither we nor any other country can afford a breakdown in international economic relations.

The significance of the financial agreement with Britain goes far beyond its economic effects, important though they are. This is a world in which all countries must work together if we are to live in peace and prosperity. The alternative—God save us—is to perish together. Mankind surely has the wit and the will to choose not death but life.