Statement to Annual Convention,
National Cotton Council of America
By Lamar Fleming, Jr.,
Atlanta, Georgia, February 1, 1954.

I have spent much of the last four months working as a member of the Commission on Foreign Economic Policy, which is sometimes called the Randall Commission, after Clarence Randall, its Chairman. The Commission's Report was released January 23rd. I hope you will read it, if you have not done so already.

The Commission was composed of five Senators (three Republicans and two Democrats), five Congressmen (three Republicans and two Democrats), and seven members from private life. We were aided by a Research Staff of very able economists. Association with the distinguished and fine Americans of the Commission and the Research Staff was an exhilaration and privilege which I always will cherish; and I am sure, to my friends in cotton circles, since the recommendation of my appointment hardly could have originated elsewhere.

The Commission included men of diverse shades of thought, predilection, and interest. In the spirit of give-and-take, we produced a report which fourteen of the seventeen members approved without general dissent; although each of us, except the Chairman, inserted comments or dissents applicable to specific recommendations in the report.

In the work with the Commission, I have been impressed again with the special pertinence of several facts about our Country.

The first of these is that our national economy has become geared to a tremendous export trade, arising from the efficiency and economy of many of our lines of production and also from the great post-war needs of the outside world and the low productivity of the war-torn nations pending the rehabilitation of their factories and farms. We still are exporting more than we are importing to the
extent of several billion dollars per year, which thus far has been offset by
grants and loans for foreign economic aid, foreign military aid, and extraordinary
foreign expenditures of various kinds, at the expense of the American taxpayer.

By now, the emptiness of foreign cupboards has been repaired and the pro-
ductivity of the war-torn nations has been restored and enlarged, especially in
the industrial lines. The taxation of our people for foreign aid has continued
so long that it threatens to become a vested burden for us and a vested privilege
and humiliation for the recipients; so that we must reach a determination to bring
it to an end, not abruptly but soon. We therefore must face the question how the
balance between our foreign receipts and payments will be achieved without the
benefit of foreign aid grants or extraordinary foreign expenditures.

The balance can be achieved by shrinking our exports to match our imports.
This would mean a shrinkage of our Country's total business, retrogression for our
economy, and aggravation of the economic difficulties of the entire World. Another
way to a balance would be through an increase in the aggregate of world trade, in-
volving greater exports, greater imports, and a greater flow of our funds into
foreign investment.

The second fact which impresses me is that the growth of our industry and
population has made us greatly dependent on foreign sources of many of the raw
materials of industry, such as tin, rubber, jute, wool, manganese, chrome, tungsten,
berkite, antimony, copper, lead, and zinc, and now even iron ore. We always have
been greatly dependent on foreign coffee, tea, cacao, sugar, and tropical fruits
and spices. If the growth of population compounds at the rate of 1-1/2% per annum,
the increase will be 25% in 15 years, 56% in 30 years. Consumption will increase
faster than population, as invention continues to multiply the objects of demand.
So our dependence on foreign sources will become ever greater.
Increasing needs for foreign raw materials will force us to seek out and develop new sources of them. This will entail an accelerated flow of U. S. investment funds abroad and an accelerated inflow of foreign raw materials, which will contribute to balancing our international trade accounts and will benefit the economic development of the countries in which the materials originate.

I am impressed anew with the importance of a third fact, an old chestnut that should not lose force through its hackneyed familiarity. It is the extreme degree in which we have become the creditor in a world of debtors.

When there is just one rich man in town, he cannot cut the lawns and take in the laundry of his poorer neighbors. He pays them to cut his lawn and wash his linen, and he devotes his own time to activities in which his efforts are more fruitful. And generally he uses his wealth to finance businesses of his own, in which he employs his neighbors, or businesses of his neighbors, from which he receives a share of the earnings or interest. This redounds to their benefit and to his. This is what those of us have done who have been fortunate enough to accumulate savings; and the rest of us earn our livelihoods in the employ of people who have savings, and some day we may step into their shoes.

If we look to the pattern of the individual of wealth, I think we find the pattern inevitable for a wealthy creditor nation. Then, if we look to History for examples of the roles of the nations whose wealth was pre-eminent in their time, we find Rome and England. In the eras of their wealth and power, these two nations were the great traders of History; they received and enjoyed in abundance the produce of other countries, for which they exchanged their own produce, and they sent their sons and their wealth to other countries, to develop and expand production of more of the things that they could enjoy. I believe we will follow the examples of Rome and England; for I do not believe there is a feasible alternative.
What we may fail to do is to recognize that this is our destiny and to pursue it consciously, intelligently, and consistently.

Another important fact is the pre-eminence of our power, which is not unrelated to our wealth.

If we look again to History, we find that trade and human welfare have expanded and flourished in the times when a nation enjoying great power has accepted the role of international leadership as a corollary of power. Historians have written too much about the martial feats of Rome and England and too little about the gifts these countries gave to the world—of peace, law, order, and development of resources, trade, currency and credit, and traditions of integrity. At other times, when no nation had pre-eminent power or when the powerful nation rejected the responsibilities of leadership, the world has slipped back toward barbarism, as during the Dark Ages following the fall of Rome.

If we should take an utterly selfish view, the question might be asked why we should burden ourselves with leadership for the benefit of other peoples. But this, I believe, would mis-state the question. For History shows too well that, in a vacuum of leadership, chaos eventually engulfs all, the strong together with the weak.

Out of all these considerations, I conclude that the wise and inevitable course for our Country is to work and to lead toward enlargement of World production and of the flow of goods, capital, and men throughout the World, counting upon it that the benefits to all will accrue also abundantly to us, just as frustration of all would extend eventually to us. I refuse to join the chorus of the prophets of war; but surely this is the way of peace.
Enlargement of production and maximum enjoyment of the products is related closely to free movements of men, capital, and products. It is hindered by every impediment to these movements.

The World is full of such impediments today. The Iron Curtain around Eastern Europe and North and Central Africa is the greatest of them all. The embargoes of some countries upon certain imports and the quantitative import quotas and restrictive import licensing of many countries are a close second. Restrictions on the purchase of foreign exchange have a like effect, as also do discriminatory rates of exchange, which tend to subsidize exports and to suppress imports. Tariffs, unless the rates of them throttle imports, are lesser obstacles than these others.

There is little we can do about the Iron Curtain, except to include the poor men and women behind it in our prayers. No others suffer from it as they do. Still I cannot pass this subject without commenting more pointedly than does the Randall Commission Report on what appears to me to be the stupidity of discouraging any trade through the Curtain that would alleviate the lot of these poor people without enhancing the destructive power of their tyrants. It fills me with confusion when my Government refuses to sell them our surplus butter and edible oils.

To consider what can be done about the restrictions on movements of goods and money, we must inquire first into the reasons for them. Import quotas, import licensing, and exchange controls originate in a nation's lack of working capital to meet its foreign commitments. It stems from exhaustion of the nation's economy, in some cases through war, in others through extravagance, over-expansion, inflation, and poor fiscal policy. In all cases, a point was reached where the nation's exports, foreign balances, and gold holdings became insufficient to pay for its imports. Then it no longer could redeem its currency in gold or in desirable foreign currency; and the only means of conserving purchasing power for it was to
make it impossible for holders of it to convert it to gold or to foreign currencies, or unrestrictedly to foreign goods, or to retain the foreign currency proceeds of exported goods. The quotas, licenses, and controls were devices to accomplish that purpose.

Some people in this Country seem to think that these controls reflect a disposition to harass us, since in fact they are exerted more vigorously against imports that have to be paid for in dollars than against imports payable in the softer currencies. The fact is that the currency these countries need the most and have the greatest difficulty in getting is dollars; and so naturally they husband their dollars more closely than the less desirable currencies. However, we must recognize that import quotas and other restrictions on imports, direct or through exchange controls, tend to confer vested privilege. If you were a toothpick manufacturer in some country and had enjoyed a monopoly on the toothpick market there since the War, thanks to restrictions against imports of toothpicks, you might feel by now that this monopoly was a matter of right. Undoubtedly there are people in the countries which practice these restrictions who feel by now that their long-enjoyed privilege has become a vested right; and the number of them will increase so long as the restrictions endure.

On the other hand, those who suffer most from these restrictions are the general citizenry of the countries which impose them. Consider for instance the Italian cotton mills that have been compelled to buy high-priced Turkish cotton by restrictions which curtailed their freedom to buy cheaper dollar cottons. This inflated the cost of Italian textiles at the expense of the Italian consumer, it priced Italian textiles out of the export markets, and it aggravated unemployment in Italy. Consider the traditionally great international bankers and merchants of England, operating now in a maze of restrictions. Do English bankers compete
for our business as they used to do? Do English merchants compete with us American merchants as they used to do? Restrictions tie their hands; but they are eating their hearts out.

The English, the Germans, the Dutch, and the Belgians are very conscious of the sacrifice which their restrictive regimes impose upon them; and they are anxious to regain viable convertibility for their currencies, so that restrictions to protect their currencies, at the expense of their freedom and opportunity to prosper, will become unnecessary.

Convertibility of a currency means the free exchangeability of it for goods as well as for other currencies. England has commenced convertibility to goods by reopening metals exchanges, wool exchanges, and grain exchanges; and the Liverpool Cotton Exchange is slated to open in May. It has been suggested that convertibility of Sterling to other currencies should commence with foreign-owned balances arising from current transactions and should be denied to old foreign balances and resident balances until the impregnability of the situation should become clear.

The step from inconvertible currency and restricted trade to convertibility and the lifting of trade restrictions is a very serious step for a government to take. In the English experience of 1947, we saw the consequences of taking the decision prematurely and nearly all in one step. The country involved must have the capacity to sell enough of its goods and services abroad to pay for the things that it must buy abroad. Its people must have the self-discipline to resist the temptations of inflation and to accept budgetary, fiscal, and monetary discipline. They must be willing to bear the burden of high interest rates, even at some loss of employment, at times when other means are inadequate to check an adverse balance of payments. The country must have at its disposal sufficient gold and foreign balances
of generally acceptable currencies to meet the drains of temporary imbalance or of sharp foreign withdrawals until fiscal and monetary measures and adjustments of interest rates can exert their corrective influences.

Although the successful return of foreign currencies to convertibility is utterly desirable from our point of view, particularly in the case of Sterling, which is the medium for half the World's international trade, I believe the worst thing we could do would be to exert pressure or even insistent influence upon the governments responsible for the decision. It would be better if they failed to take the step than if they took the step and failed. Success is more likely when the responsibility of the decision is squarely upon the government which takes it and when the hearts of the government and people are committed to it. Anyhow what government other than the British government can judge the capabilities of Britain? or other than the Netherlands government the capabilities of the Netherlands? On the other hand, I think we, as a people and as a government, should encourage the nations which conclude that they are ready for return to convertibility, when they themselves make the decision.

The productive capacity and exporting capabilities of the countries of Western Europe have recovered from the low point following the War and are now at higher levels than before the War. With the aid of our grants and loans, these countries have been able to bring their dollar receipts and payments into balance, and several of them recently have made considerable progress in rebuilding their gold and dollar balances. Some think that the conditions have arrived, and others think they are near at hand, to justify the British, the Germans, the Belgians, and the Dutch in moving to convertibility, perhaps by gradual stages and, for some of them, with restrictions at first upon the withdrawal of old balances for foreign account and upon the export of capital by their nationals.
If any of these countries take the step, it seems generally taken for granted that they will be assisted in the critical early stages by lines of credit with the International Monetary Fund, to cushion temporary drains. The lines available there are limited; and it may be that the decision and timing of the step by one or more countries will depend upon the availability of supplementary credit from this Country. Within reasonable dimensions, I would favor sympathetic consideration of such additional credits, to serve as standby cushions. I believe the Federal Reserve System would be the preferable vehicle for them. I think the chances are it would cost us nothing but would hasten the termination of our foreign aid burden.

Credit from the International Monetary Fund means credit from the United States as the largest contributor of its gold and hard currency resources, and credit from the Federal Reserve System is credit from the United States. So what I am favoring is that we take a risk upon the success of the return of Britain and several other countries to convertibility, when plans for the return are decided upon by their governments and are found by us to be sound and feasible.

By taking this risk, we would help the countries in question to lift the restrictions which hamper our trade with them and hamper all trade, and we would be helping the World toward that freer movement of goods, men, and money, which is the essence of general growth of business and trade.

But the responsible governments of those countries cannot take this very weighty decision, nor can we stake our money on the success of it, unless they and we are convinced of the mutual intent to do the things that will make success a good calculated risk. We must be convinced that our foreign economic policy consistently will recognize that no nation's receipts and payments can stay out of balance over any long period, and therefore that we will have to buy as much goods and services as we sell, once we discontinue our foreign grants and extraordinary foreign expenditures, except to the extent that our foreign payments may be supplemented by investments abroad. This must mean a continued willingness to expand our imports of
complementary products which we do not produce here, moderately to expand our imports of supplementary products which compete with our own productions, and to follow policies benevolent toward investment of our citizens' savings in the development of foreign sources of wealth.

I do not mean that we must commit ourselves to a drastic general reduction of tariffs. I do mean that we must let the World rely upon it that we have turned away from extreme protectionism, that our policy is to moderate our tariff rates that are unreasonable and to iron out tariff complexities and practices, whether statutory or administrative, which have the effect of harassing the importer. I mean we must give the foreigner reason to trust that, if by dint of effort and promotion expense he succeeds in creating a demand for his product here, we will not saw the limb off behind him by raising the tariff rate on it to an exclusionary level. I mean too that we must give the foreigner reason to believe that there will be a growing interest of American investors in good and profitable opportunities to create new wealth abroad, provided the host governments afford the American investor hospitable and equitable treatment, — which would add to the dollars available. Without these promises, how can a foreign government plan to balance its dollar trade? And how else can we believe in their plans and risk our money on them?

In the matter of foreign investment, I believe the activities of governmental agencies such as the Export-Import Bank and the International Bank for Reconstruction and Development must be regarded as a temporary phenomenon, not to be relied upon over any long period. Anyhow the big source of investment never will be the taxpayer; it always will be the accumulator of personal savings and the companies in which he buys stock or insurance. These private funds are available for investment anywhere, if the elements of prospective gain, safety, equitable
treatment, and reconvertibility of earnings are present. Of late years, these elements have not been generally present in many parts of the World. Reconvertibility of earnings is incompatible with inconvertibility of currencies. A return of the World's key currencies to convertibility would be the prime ingredient of a more general reconvertibility of the earnings of international investment. Moreover, the return of convertibility would be a big step in the return to the normal traditions of responsible ethics, the field in which equity toward investors lies.

Governments suspend convertibility of their currencies only when their currencies have become unstable; and so return to convertibility implies the return of stability. When currencies are stable, the citizens practice normal thrift, and their savings become the pool of working capital for the nation and its business. When the currencies become unstable, savings in the form of bank balances, loans, bonds, and insurance become a gamble instead of a protection; and the result is a diminished incentive to save and a great haste on the part of citizens to rush their savings into real property or more trustworthy foreign currencies. It is this condition that has demurred some countries of the liquid savings which otherwise would serve them as working capital. A successful return to convertibility and stability of currencies would revive the accumulation of liquid savings in these countries and help to finance the development of their economies and wealth. It also would tempt those who have hoarded gold or real property or have spirited their savings into Swiss francs and dollars, to unhoard and return their savings to their own countries, in quest of attractive earnings. It is interesting and astounding to hear the many and diverse conjectures as to the amounts of this sterilised capital, which convertibility and stability would tend to release to greater usefulness.
For us, whose thoughts and interests are against a background of cotton, the vision of a general move toward convertibility of currencies and toward the lifting of quotas and other trade and exchange restrictions offers a most exciting prospect. The compartmentalization of trade has been the greatest check to an even rise and spread of the tide in World standards of living. The breaking down of the compartments should release this tide; and we should see a spreading increase in World standards of living and World use of textiles, which has been long overdue particularly in the less developed countries.

We should see an end to the kind of compartmentalization which has caused a cotton-importing country to buy from a particular cotton-exporting country because of a trade-clearing or better agreement between the two, almost without regard to price; and always we should find our cotton salable in foreign markets on even terms of quality and price.

The removal of the bilateral strait-jacket from the great portion of the World's trade which now is confined within it would let the goods involved seek the highest bidder anywhere and let the buyers involved seek the lowest offer anywhere, with great benefit to the aggregate of all trade.

So I believe the vision of convertibility is one of greater wealth, greater trade, greater consumption, and greater opportunity, around the World. Within it lies the prospect of a quickening distribution of our accumulated surplus cotton and of an outlet for our future production, based upon an increasing capability of a growing World population to buy and own clothes. It offers the means of balancing out Country's foreign trade on a high and prosperous level. It offers the promise to the peoples of the World of an expanding abundance, opportunity, and satisfaction within the fold of the Civilization which we cherish and which none abandon unless in surrender to frustration.