

340

89th Congress }
2d Session }

JOINT COMMITTEE PRINT

TWENTY YEARS AFTER: AN APPEAL
FOR THE RENEWAL OF
INTERNATIONAL ECONOMIC COOPERATION
ON A GRAND SCALE

A REPORT
OF THE
SUBCOMMITTEE ON INTERNATIONAL
EXCHANGE AND PAYMENTS
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



SEPTEMBER 1966

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1966

68-719

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LETTERS OF TRANSMITTAL

SEPTEMBER 16, 1966.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a report of the Subcommittee on International Exchange and Payments entitled "Twenty Years After: An Appeal for the Renewal of International Economic Cooperation on a Grand Scale."

The views expressed in this subcommittee report do not necessarily represent the views of other members of the committee who have not participated in hearings of the subcommittee and the drafting of its report.

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

SEPTEMBER 15, 1966.

HON. WRIGHT PATMAN,
*Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.*

DEAR MR. CHAIRMAN: Transmitted herewith is the unanimous report of the Subcommittee on International Exchange and Payments entitled "Twenty Years After: An Appeal for the Renewal of International Economic Cooperation on a Grand Scale."

The subcommittee wishes to express its gratitude and appreciation for the guidance it has received from the experts who appeared before it as witnesses.

Sincerely,

HENRY S. REUSS,
*Chairman, Subcommittee on
International Exchange and Payments.*

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TWENTY YEARS AFTER: AN APPEAL FOR THE RENEWAL OF INTERNATIONAL ECONOMIC COOPERATION ON A GRAND SCALE

I. INTERNATIONAL COOPERATION OR CHAOS: 1947 AND 1967

The Subcommittee on International Exchange and Payments of the Joint Economic Committee has reached the conclusion that a dramatic new approach is necessary in order to infuse new life into negotiations to dispose of the unresolved issues on the international economic agenda. There is no reason to think that agreement and closer cooperation are impossible, but the technicians and experts are still on dead center. There is only one way to get things moving again: this is to call together a high-level conference of governments.

Twenty years ago this coming June 5, 1967, the prospects for rapid European recovery and for multilateral economic cooperation were hanging in doubt. Twenty years ago this coming June 5, the century's most ambitious experiment in multilateral economic cooperation was launched when Secretary of State Marshall made a brief suggestion in a commencement address at Harvard University. He invited the European nations to take the initiative in coming together to estimate their needs and to plan for coordinated reconstruction efforts. That initiative was taken; the United States responded; and the European recovery program—a noble and successful experiment—was the result.

But the spirit of 1947 and the determination to solve vital problems are missing today. We believe that the time has come to renew our cooperative efforts on the grand scale of 1947. We believe that the experience of the Marshall Plan points the way—that an initiative from others promises more success than an initiative from the United States.

By issuing a report at this time, we hope not only to provoke discussion of our views. We hope also to assure the representatives of the OECD countries or of a broader group of nations that an initiative coming from them to call a high-level governmental conference is feasible and would be welcomed by us. Finally, we hope to assure the President, the Secretary of State, and the Secretary of the Treasury, that if they saw fit to respond favorably to such an initiative, they would have full and enthusiastic backing.

II. OUR WORLD IS ON DEAD CENTER IN TRADE, AID, PAYMENTS, INTERNATIONAL MONEY, AND DOMESTIC STABILITY

The world is in trouble—deep trouble—in at least five different areas of economic negotiation and policy: trade; aid to less developed countries; maintaining a balance in international payments; international monetary reform; and maintenance of stable price levels in economies marked by full employment and rapid economic growth.

(1) *On trade.*—The latest round of trade negotiations initiated under President Kennedy moves ponderously toward its June 1967 deadline with little prospect for achieving very much of what had been hoped from it at its initiation 5 years ago. Furthermore, whatever happens, the United States, like other countries, will need a new trade policy after next June when the present round terminates for good or ill.

(2) *On international aid programs.*—The will of the industrial countries to help the less developed seems to be fading even though material advance in our own domestic economies is creating an increasing capacity to give such help. In the United States, the architects and champions of foreign aid in Congress, as elsewhere, are withdrawing their advocacy of long commitments, if not indeed of any commitments at all. Our European partners seem to deny the obligation to participate in such efforts except on a strictly commercial basis. The proposal to increase the flow of aid through the International Development Association and thereby to internationalize it has been shrugged off. The prosperous Common Market turns increasingly inward, and the other industrialized nations therefore begin to look to their separate interests. As the needs grow, therefore, and more people face severe shortages of food, to say nothing of amenities, programs become progressively inadequate.

(3) *On international payments.*—The cooperation on international adjustment and facilitation of payments settlement which marked the early postwar years has congealed into rigid exchange rates and recriminations as to who is to make adjustments to keep the system in balance. Restrictions ease the situation or postpone the day of settlement, but only at the cost of liberal trade policy and future prosperity. The U.S. unilateral efforts to put its own payments in order without damage to the international economy have shown little real progress. As a result, there has been a continuing increase in the supply of dollars in foreign hands accompanied by a persistent conversion of such dollars into gold by at least one of the powers; namely, France. The process continues at such a rate that many are beginning to fear a future run on the dollar.

(4) *On international monetary reform.*—Heads of national treasuries and central banks have been talking international monetary reform for over 5 years. But today we live on hope rather than accomplished agreement. We have reached agreement on brilliant exegeses on the alternatives but no agreement at all on which one we will take as a basis for policy. Our best hope is that if all goes well, everyone but France will be in agreement a year from now as to what we might start to do if the world ever ran into serious financial trouble. This is small consolation, for real trouble will not necessarily give us notice of a year or two in order to enable us to put the new machinery in place. The world faces a very real risk that if a financial crisis comes, it will be with so little warning that we had better have the machinery in existence and functioning, not merely agreed upon in vague principle. And that kind of agreement is far from an immediate prospect.

(5) *On full employment without inflation.*—Almost every one of our countries is producing more with each passing year. Each in its own way has found a road to rising productivity, full employment, and

rising standards of living. But no nation has managed to obtain a full employment economy with rapid growth while still retaining reasonably stable prices. And every one knows full well the end of the road if the nations do not solve this dilemma.

If the world's malaise were only economic, matters would be bad enough. But it is also political. The disintegration that has set in in recent years has gone across the full scope of diplomatic and military issues, as well as economic. Policies of the various countries have become increasingly preoccupied with shortrun nationalistic advantage rather than long-term international cooperation.

Lipservice to interdependence is common, but actual international cooperation fades hourly into the background. Whether we are negotiating about military affairs, for example NATO, or international monetary reform seems to make little difference. The discussions that do take place are at a very low level—technical discussions by finance, trade, or aid officials, or brief bilateral affairs of limited agenda. The smaller countries are in no position to take the initiative. The larger countries pledge international cooperation but practice national parochialism. Heads of State visit each other for a weekend but the pronouncements that follow contain little of substance. The powers are divided about gold only a little less than about the solution to the problems of Vietnam and southeast Asia. In a word, the nations of the world are slipping back into postures of adamant nationalistic selfishness. Psychologically the world is on a dangerous skid toward international chaos.

III. DRAMATIC ACTION IS CALLED FOR: AN INVITATION TO OTHERS TO TAKE THE INITIATIVE

History gives little ground for expecting the economies of the world to move smoothly forever if we do not mend fences in time through international cooperation. Now is the time, therefore, to act before a crisis finds a spark to set it off. We have a fitting occasion which provides both a convenient date and a symbol for such cooperation. June 5, 1967, will be the 20th anniversary of Secretary of State George C. Marshall's famous speech at Harvard in which he launched his call for international cooperation which led to the Marshall Plan for the reconstruction of postwar Europe.

The key to the Marshall Plan was: (1) International cooperation in planning and execution of programs to solve one common problem while the nations remained at odds on other issues set aside for the moment; and (2) a U.S. pledge of good will, cooperation, and the goods and capital necessary to make the plan work. It was so successful that it inspired a whole decade of varied international cooperative efforts, many of which still survive to the benefit of Europe and the world.

The problems now are different. Success depends not on the United States providing the capital and other resources the world needs. Success depends upon joint cooperation and contributions of all the industrialized countries. The leading nations might make such a contribution by convening a high-level governmental conference which would design and launch a new plan of international coopera-

tion, comparable in scope and appeal to the original Marshall Plan, to become operational on that plan's anniversary, June 5, 1967.

Therefore, this subcommittee calls upon the United States and the other industrial countries (Europe plus Canada and Japan) to work toward an immediate convening of such a conference with two objectives: (1) To develop mechanisms of cooperation where necessary to achieve full employment, rapid growth, and stable prices in each of our countries; and (2) to develop techniques for international cooperation in trade, aid, and monetary reform that will make it possible for the developing countries to feed their teeming millions and develop their economies until they become true trading partners on equal status.

The plan developed out of the conference, for activation next June 5, should contain provisions at least for the following:

(i) A trade policy to succeed the present round of negotiations under GATT;

(ii) An aid policy that would see to a real transfer of goods and services from the advanced to the developing countries, on a scale more nearly related to the urgent needs of the latter;

(iii) A program of international monetary reform, through the IMF, that would adequately reconcile the interests of reserve-currency countries and other countries holding these currencies as reserves; and

(iv) Establishment of machinery to assist in maintaining continuing cooperation for achieving full employment and price stability throughout the cooperating community of nations.

Such a high-level governmental conference would serve several other purposes. It would bring together under one roof technicians and experts in a number of fields who have been working for too long in separate compartments. It would force them to take a global view of the problems on which they have been working and to see anew the interconnections among them. It would move problems that are too important to be settled on a bilateral basis or within restricted groups to an appropriate multilateral forum. Above all, it would provide the political impetus necessary to mobilize efforts to solve these problems, and it would demonstrate in a dramatic way the commitment of these countries to building a harmonious and generous international economy.

In placing this appeal before the nations—our own as much as the others of the free world—the subcommittee is not unmindful of the difficulties. But it is more mindful of the penalties of failure. We must find a way to break out of the small battlegrounds of the technicians and forge a new spirit and practice of international cooperation. If we do not, then economic and political pressures, created by nationalistic parochialisms, will force us eventually to face these same decisions under far less favorable circumstances.