

The Economic Club of New York

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It has become a common phrase that if a better world is going to result from this war, the mistakes of the past must be avoided. Discussion is taking place with regard to the political issues, but no common denominator has been found yet. It can hardly be expected otherwise. Unknown elements which will influence the peace settlement confront us and therefore it is virtually impossible to blueprint. We can make a rough drawing of a room and its general place in a house but until we determine - and this is the unknown element - whether or not we will have an open fireplace, we are not in a position to definitely designate space for the windows, doors and radiators etc. What we can do is to say now that a specific room shall face East, West, North or South because experience has taught us a certain exposure to be the most desirable for that particular room. This analogy adapted to matters political, seems to indicate that past mistakes have led to a general agreement that security represents the craving in the hearts of all democratic men. On this principle we can now endeavor to visualize a rough sketch.

But how do matters stand in the economic field? Aside from a desire to avoid past mistakes, have we found a principle which will enable us to visualize a rough economic outline? In other words, have we found in matters economic the principle which is the counterpart of what security is in the political domain?

A quarter of a century ago, President Wilson formulated the historic 14 points, the third of which stipulated “the removal so far as possible of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.”

After 25 years, we have to acknowledge the fact that this fine principle, calling for freer trade amongst nations, did not fare any better in the in-between-war period than the maintenance of the peace itself.

Now, as then, we are once again on the eve of fateful events. Victory, which has so long eluded us, is in sight; we are all waiting eagerly and impatiently for the United Nations to start the great and final offensive which will lead to the unconditional surrender of our enemies and our decisive victory.

On the day of victory, our immediate and most important task, the defeat of the Axis, will be achieved, but we will at once be confronted with other problems, one of which will be to create sound economic conditions in the post war world. For, although I do not belong to those who take the extreme view that the causes of all wars are solely economic, it cannot be denied that in the modern world the interdependence of political and economic causes is such that failure to achieve reasonable economic stability will inevitably lead to political instability, which in its turn will endanger, if not destroy peace. therefore, if we want to avoid a repetition of such tragedy,

planning with a view of establishing sound and equitable economic conditions tending to unite the nations is, it goes without saying, of vital importance.

A great deal of understanding, not only on the part of responsible statesmen and economists but on that of the people as well, will be required to carry out a policy of international economic cooperation, for if we study the economic situation in the world between 1918 and 1939, one fact strikes us time and again. The economic experts, meeting at the numerous conferences which took place in those years, nearly always agreed on the causes that were responsible for creating the unsatisfactory economic conditions in the world. In other words, the doctors experienced no trouble in establishing the correct diagnosis of the disease. Moreover, they nearly always agreed on the medicine which should be administered to the patient, were he to recover. But the patient proved to be so fractious that he preferred to allow his condition to deteriorate from bad to worse rather than follow the prescribed cure. If something similar is to be avoided this time, we will be well advised to study this strange phenomenon and see to it that from now on the patient will behave and will not again disregard all prescriptions. I believe this to be our duty, but views may differ on this point. However, even if we should not feel in duty bound to avoid the economic mess of the post war period beginning in 1918, those who have witnessed the economic chaos in which the world found itself - first immediately after the war and again in 1929 and the ensuing years - will agree that our own self-interest should be a sufficient ***** us to strive at achieving better ***** time. We will certainly encounter many difficulties we have known before. Though similar in character, we must even be prepared to find their magnitude vastly

increased. In this connection I would like to recall to you a few of these major problems which disturbed the world after the last war and which, being of a permanent, or, at the best, of a semi-permanent character will again make their influence felt in the coming post war period.

The peace treaties established many new frontiers, especially in Europe. New economic units were thus established, and the economic life of the old continent had to be adjusted to these new conditions. This was of necessity a slow process which in the interval between the 2 great wars had not yet been completed.

We must expect to see the same happen again in the immediate post war period. But now the problem will be even more difficult to solve. For in this war, practically the whole of Europe has been forced to make its economy subservient to the German war machine. Not only have the German satellite states and the occupied countries been compelled to incorporate their national economics into the so-called German New Order, but the few remaining neutral countries also have been drawn either by pressure or through force of circumstance into the German economic orbit. But even so, the picture is not complete. Industries have been removed from the occupied countries to Germany or German occupied countries in Eastern Europe and millions of workers have been shifted from their homes to foreign lands. In Europe the transition period for industry will not only mean shifting from war to peace production. Entire industries will have to be moved back to the countries where they had been originally established, together with the labor which has been forced to work abroad. Already, a severe transportation problem exists in

Germany and in the overrun countries, a problem which will become even more severe after the final collapse of the Axis. One of the first tasks of the United Nations will be to re-establish in the shortest possible time an adequate transportation system by railroad and inland waterways. For without transportation, even the most pressing problems, of feeding the starving populations - especially those who live far inland - will become insoluble. There can be no doubt that food and medicine will obtain highest priority once the fighting is over. Next in urgency comes the task of partially or gradually demobilizing the armed forces, of repatriating the prisoners of war and the deported workers, and on top of it will come the problem of moving back entire industries to the countries where they belong. In this connection the vital importance of providing employment need hardly be mentioned. But even if the jobs will be abundant, what about the undermined health of the workers, their tools, the raw materials, the mechanical equipment, and a host of other problems.

We would moreover be unduly optimistic if we believed that these repatriated industries, once re-established and put back in working order could start producing anew the goods they manufactured before the war, even if the required supply of raw materials could be assured. This may be the case in some instances, but it will certainly not be the general rule. In this war, as during the last one, industrialization in many countries has proceeded much faster than would have occurred in normal times. The best known example in the United States is the establishment at unprecedented speed of the synthetic rubber industry. Natural silk is another product for which many cellulose substitutes as rayon and nylon have been found, the output of which has

increased tremendously. Rubber and silk are only 2 major items in a very broad field. The same is true of many other articles and furthermore, the same trend is noticeable in many countries. It is certain that this tendency which could have proved beneficial if it had taken place as the result of normal economic development will now require careful re-adjustments in international trade and in many cases may create temporary or even permanent hardships to the former industrial or agricultural producers.

A third factor which created an entirely new situation after the last war is to be found in the fact that several so-called creditor nations became within a few years debtor countries. It seems certain that we will witness an analogous process after this war. For one, my own country, until Hitler's invasion, belonged to the creditor nations. We do not yet know what the exact financial position of the Netherlands will be after the defeat of the Axis. But one thing is certain, we will sorely need the remaining assets which we will be able to muster to reconstruct the economy of our devastated country, be it in Holland or in the Netherlands Indies. At the best, the position of Holland as a creditor nation will not be entirely reversed, but the chances are that we will have become a debtor nation. As a creditor nation, we could in the past afford a passive balance of trade, for this deficit was offset in the balance of payments by our invisible exports such as shipping services and capital investments returning interest. In the immediate post war period our invisible exports will be negligible. We will therefore have to watch our balance of trade much more carefully than before, and our imports will be practically limited to the foreign exchange we will be able to buy with our exports.

The same situation will exist in most, if not in all belligerent European countries. Having all to a greater or lesser extent become debtor nations, their need to export will have become greater than ever before. But export will not only be hampered by the devastation which has occurred during the war, or by the scarcity of raw materials which must be anticipated; we must envisage the danger - and I hope that this will prove to be merely theoretical - that export trade will also be adversely affected by restrictive measures in the creditor nations. I very much doubt whether it will be possible to remedy this situation even in part by large scale emigrations such as occurred before 1914. Then an average of 1,300,000 people left Europe each year. After the first war, this figure was halved. Will, in the coming post war years, even this number of people be able to establish new homes across the oceans? If not, then unemployment may once again become a major problem for many countries.

The conclusion to which I come therefore is that a number of factors caused structural and therefore fundamental changes in the world economy after the last war. The same factors will be encountered after this war and moreover it seems more than probable that they will make themselves felt to an even greater extent than in the post war period following the First World War. I am fully aware that this is not a cheerful outlook for the future. But I feel quite certain that nothing is to be gained by behaving like the traditional ostrich. We must be completely conscious that a number of unavoidable factors, let us call them the natural, the logical consequences of war, will for a very long time, if not more or less permanently hamper economic revival. Only

then can we be conscious of the dire necessity of not unduly aggravating this situation by further obstructing the road to recovery through willfully artificial and avoidable measures.

One of the dangers against which the United Nations will have to take effective precautions is currency inflation and the resulting threat of exchange dumping. After the last war, the Supreme Economic Council was charged with this task, but inter-allied economic cooperation soon broke down, and a period of, for a time, uncontrollable inflation followed in many countries, especially in Germany. The dangers and the causes of inflation are better understood nowadays than they were after the last war, and we may therefore expect that this problem will be solved if the United Nations agrees in time on common measures to guard against this threat. However, it will not be sufficient to guard against inflation. If chaos is to be avoided, monetary stability between the principal currencies of the world will have to be assured. This does not mean that the external value of any currency could not be modified if it were seriously strained. On the contrary, it is now understood that a certain flexibility which could not be achieved under the gold standard is desirable. But it does mean that the participating governments will endeavor to abstain from disturbing the system of international exchange on which they will have agreed, and that no country will modify the exchange value of its own currency without prior consultation with the other nations. Informal discussions on future currency regulations have already been started by the United Nations. It is of vital importance that agreement on this subject be reached before the end of the war. By adhering to a common plan of international currency regulation, the United

Nations will be able to eliminate one of the avoidable causes of economic instability which proved so disturbing after the last war.

The League of Nations published in the Fall of last year a survey of the commercial policy in the inter-war period. In this publication, which deserves serious study by all who are interested in international affairs, the following is said about international trade in those years:

“The International Conferences unanimously recommended, and the great majority of governments repeatedly proclaimed their intentions to pursue, policies designed to bring about conditions of ‘freer and more equal trade,’ yet never before in history were trade barriers raised so rapidly or discrimination so generally practiced.”

There were many reasons for this paradoxical situation. The International Chamber of Commerce made the following penetrating remarks on this subject:

“A great part of the practical opposition expressed in recent years to freer trading initiatives and to exchange stabilization springs from such motives of social welfare as concern with national or group standards of living, the distress arising from unemployment and the desire to mitigate, and if possible control, the violent cyclical fluctuations of economic activity that bring insecurity to employers as well as employed. It must be recognized that there is a widespread and powerful popular opinion that deems it intolerable for human beings to live in the shadow of economic insecurity, poverty, malnutrition and unemployment. Arguments for freer trade based upon

laissez-faire and the long-run maximizing of national income are often rejected because of the preoccupation with social security in the short run and the demand for safeguarding employment.”

A hasty and therefore wrong conclusion might easily be drawn from these observations, namely that national social security is incompatible with a freer international exchange of goods and services. Pre-war Holland may serve as an example to prove that a country with a strongly developed social security legislation can nevertheless maintain a high level of international trade. In fact my country was the last nation to join what Holland’s grand old man and former Prime Minister Dr. Colijn used to call the St. Vitus Dance of unbridled protectionism.

If the world is to regain a minimum of economic security we must pray and hope that the United Nations will take timely measures against recurrence of this disease. One element at least should prove helpful in achieving this end. The 6th point of the Atlantic Charter states that the future peace should afford to all nations the means of dwelling in safety within their own boundaries. If international security is achieved, the struggle for self-sufficiency, so aggressively selfish, may well abate. On the other hand, should we witness once more a situation of international insecurity as occurred in the inter-war period, then we must be prepared to see the mad pursuit of autarchy resumed. I for one am convinced that there will be no economic security without political stability. This is the main lesson of the past 25 years. Once the nations come to realize that peace is indivisible, then they are on the right road towards recognizing that security and

stability in the political as well as in the economic field are indivisible too...This is not a principle which will descend upon us like manna from Heaven. It must and will come to the human race as a result of human suffering and misery. Have we learned our lesson? The Koran says: "Woe be unto those who pray and who are negligent at their prayer; who play the hypocrites and deny necessities to the needy." Lest we forget our present extremity.