HEARINGS ON THE EXPORT-IMPORT BANK BILL
BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE
July 11, 1945 -- 10:30 A.M.

Hearings before the Banking and Currency Committee of the House of Representatives on H.R. 3490, a bill "to provide for increasing the lending authority of the Export-Import Bank of Washington and for other purposes," introduced by Rep. Spence on June 18, 1945, began with the testimony of Leo T. Crowley who appeared as Chairman of the Board of Trustees of the Bank. Mr. Crowley pointed out the five important changes which the bill would make in the legislation governing the operations of the Bank. These changes (1) would raise the limit on outstanding loans and guarantees of the Bank from $700 million to $3.5 billion, (2) would remove the prohibition on loans by the Bank to any government in default upon its obligations to the United States Government on April 13, 1934, and would repeal the Johnson Act prohibiting private loans to governments in default on obligations to the United States Government, (3) would extend the life of the Bank to January 22, 1957, (4) would provide for semi-annual reports by the Bank to Congress, and (5) would provide for the purchase by the Treasury of $1 billion of capital stock of the Bank, for the retirement of present stock outstanding, and for the purchase by the Treasury of obligations of the Bank to the extent of two and one-half times the capital stock.

Mr. Crowley stressed the necessity of getting action on this legislation before the adjournment of Congress. He said that the Bank at present has only $117 million of free funds, that loans now under active negotiation would absorb this margin, and that other projects, now in the discussion stage, are being held in abeyance because of lack of funds. He also said that private and governmental funds must be made available to finance purchases of much needed United States equipment by foreign countries which will ease the problem of reconversion in the United States. Mr. Crowley stressed the fact that Lend-Lease aid will be furnished only for war purposes and that the International Bank will not come into operation for some time. The appropriation request for Lend-Lease for 1946 was based on the assumption that Congress would expand the lending authority of the Export-Import Bank to permit the financing of portions of the agreements made under Section 3(c) of the Lend-Lease Act 1/ for the delivery of equipment and supplies to France, Belgium and the Netherlands. In Mr. Crowley's opinion, the proposed increase of $2.8 billion in the Bank's lending authority would suffice to finance essential exports for reconstruction and other purposes during the present fiscal year. At the end of the year, the Export-Import Bank could return to Congress to request additional lending authority. It is impossible at present to determine what funds will be needed for a program of rehabilitation and development.

1/ Section 3(c) of the Lend-Lease Act authorizes the President of the United States during the three years immediately following the expiration of the Act to continue to exercise such powers of procurement and transfer of goods and services as may be necessary to carry out contracts entered into prior to such expiration. The agreements made under this section provide for cash payment in 30 annual installments for goods delivered after the President determines they are no longer necessary for use in the defense of the United States.

Mr. Crowley favored the idea that the National Advisory Council proposed in the Bretton Woods bill should coordinate the policies of the United States representatives on the International Bank and Fund with those other agencies making foreign loans, including the Export-Import Bank. As a member of this Council the Chairman of the Board of the Export-Import Bank would keep the Council informed of the Bank's activities and would be kept informed of the Council's policy decisions affecting the Bank's operations.

At the close of his statement Mr. Crowley announced that W. Randolph Burgess, President of the American Bankers Association, and W. L. Hemingway and Robert V. Fleming all felt it was necessary to increase the lending authority of the Bank. Rep. Spence (D. Ky.) then said he had heard of no opposition to such an increase and Mr. Crowley agreed that he likewise knew of no opposition.

Mr. Crowley assured Rep. Crawford (R. Mich.) that the Bank would be prepared to finance agricultural as well as industrial exports. Rep. Brown (D. Ga.) asked Mr. Crowley to compare the bill under consideration with the Wolcott bill. Mr. Crowley replied that there was little difference in what the bills were intended to accomplish, only a difference in the amount of the Bank's lending authority. The Wolcott bill also made provisions regarding the management of the Bank which he preferred not to discuss at the moment, but he said that the Bank and Rep. Wolcott were not far apart in their thinking on the Bank's management.

Rep. Gamble (R. N.Y.) questioned Mr. Crowley on the Export-Import Bank's operations and their relation to those of the International Bank. Mr. Crowley said the Bank would continue to guarantee private loans through its take-out arrangements and that there would be no objection to transferring loans from the Export-Import Bank to the International Bank. The Advisory Council would presumably prevent a borrower turned down by the International Bank from going to the Export-Import Bank. There may be some competition between the two institutions. Mr. Crowley said he did not want the International Bank to dominate the Export-Import Bank.

Rep. Monroney (D. Okla.) asked a number of questions about the effect of the repeal of the Johnson Act provided for in this bill. He felt it would be better merely to repeal the legislation prohibiting loans by the Export-Import Bank to governments in default on their obligations to the United States Government. He feared repeal of the Johnson Act would result in the flotation of questionable issues on the United States market. Mr. Crowley pointed out that the Security and Exchange Commission law protects the private investor against such issues by requiring that full and accurate information be published about all issues. In Mr. Crowley's opinion the repeal of the Act is necessary to encourage private investment.

Rep. Sumner (R. Ill.) asked for a definition of the phrase "lending authority of the Bank" and wondered if the Bank could use part of its funds as a guarantee fund with which to guarantee loans perhaps several times larger in amount than the fund itself. Mr. Crowley stated that the Bank's total loans and guarantees were included in the limit of $3.5 billion on the Bank's lending authority. Rep. Sumner asked about the gold and dollar exchange reserves of foreign countries and Mr. Crowley promised to supply data for the record.

Mr. Crowley explained to Rep. Talle (R. Iowa) that he doubted there would be any transfer of loans from the Export-Import Bank to the International Bank and said the Export-Import Bank would certainly not sell paper to the International Bank. However, he felt a country might pay off the Export-Import Bank and then borrow from the International Bank. Rep. Thom (D. Ohio) pointed out that a loan by the International Bank for the purpose of paying off an obligation to the Export-Import Bank could not be considered a loan for productive purposes under the terms of the Bank Agreement. Mr. Crowley said that the Export-Import Bank should not become "involved with" the International Bank and that it would not need to be "baled out" by the International Bank. Rep. Thom inquired if all the proceeds of Export-Import Bank loans must be spent in the United States and Mr. Crowley explained that loan funds in some cases may be used to finance local expenditures.

Rep. Buffett (R. Nebr.) asked Mr. Crowley to name the United Nations which lack resources with which to make purchases in the United States. Mr. Crowley listed Poland, Czechoslovakia, Greece, Yugoslavia and Italy, and also stated that Belgium, Holland and Norway would need rehabilitation credits. Mr. Crowley assured Rep. Wolcott (R. Mich.) that his statement that Lend-Lease was to be used only for war purposes was official. He estimated that several billion dollars worth of materials for which there is a residuary use have been made available through Lend-Lease. He agreed with Rep. Wolcott that the Export-Import Bank should have increased lending authority to finance exports and should act as a stop gap between the end of Lend-Lease and commencement of operations of the International Bank. Mr. Crowley stressed the fact that there would be great need for the Export-Import Bank even after the International B ank was in operation. He felt that it was impossible to expect loans to be "adequately secured" as Rep. Wolcott's bill provides. He said the Bank must use its judgment and choose projects which would directly or indirectly produce the means of repayment. Since many European countries are not in a sound financial condition, loans to these countries must be constantly reviewed and judgment must be acquired after experience.

Rep. Sumner asked about interest rates and maturities on Export-Import Bank loans. Mr. Crowley said that 4 per cent was the usual rate and that loans had been made for 25 years and might go as high as 30 years. He also said he thought 4 per cent was too high an interest charge for rehabilitation loans.

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At the afternoon session of the hearings Wayne C. Taylor, President of the Export-Import Bank, and Dean Acheson, Assistant Secretary of State, testified. In his prepared statement, Mr. Taylor reviewed the organization, history and operations of the Bank. He classified the loans of the Bank according to seven categories: (1) short-term loans to finance the export of agricultural surpluses, (2) loans to American firms to finance the export of industrial commodities, (3) revolving credit lines to small but experienced United States exporters and importers which are hampered by lack of capital, (4) loans to make possible continued purchases in the United States by countries temporarily short of dollar exchange, (5) loans to finance development projects abroad, (6) loans to stimulate production and expedite transportation of strategic materials required for war production in the United States, and (7) arrangements to underwrite letters of credit opened in this country by United States commercial banks in favor of approved foreign banks. Mr. Taylor also put in the record a statement of loans and commitments of the Bank as of June 15, 1945, and a statement of loans by countries as of the same date.

Mr. Taylor confirmed Rep. Wolcott's (R. Mich.) statement that all administrative expenses of the Bank are paid out of earnings and that the Bank does not benefit from any Congressional appropriation. In reply to questions by Rep. Monroney (D. Okla.) Mr. Taylor said that the Bank now pays 2 per cent on its preferred stock and that on loans from the Treasury provided for in this bill the Bank would pay a rate to be agreed upon with the Treasury. Mr. Crowley answered a question by Rep. Crawford (R. Mich.) on the subject of whether the United States should attach strings to its loans through the Export-Import Bank to insure that borrowing countries did not adopt institutions contrary to democratic and capitalistic principles and to provide for a measure of management of these governments by the United States. This discussion was off the record.

In response to an inquiry by Rep. Sumner (R. Ill.) on what countries the Bank expected to lend to in the near future, Mr. Taylor reported that the Bank was currently negotiating loans with Norway, Denmark and the Netherlands (for the East Indies) and was considering loans to other countries which are now subject to the Johnson Act. Mr. Taylor was unable to supply gold statistics for Russia. Rep. Sumner felt that the United States should attach conditions to Export-Import Bank loans in order that the loans would not act to subsidize the spread of communism. Rep. Spence (D. Ky.) pointed out that the Bank was free to choose its customers and could consider such factors as the type and stability of a foreign government before granting a loan.

Rep. Hays (D. Ark.), Rep. Talle (R. Iowa), and Rep. Thom (D. Ohio) inquired about specific loans. Mr. Taylor explained that the loan to Pan American Airways was for the purpose of financing hotel construction in various Caribbean countries. To the cost of these projects local capital would contribute 50 per cent. Loan No. 349 was granted to aid in the purchase of certain German firms in Brazil. Mr. Taylor described how the Export-Import Bank supervised the use of its loan funds.

Rep. Buffett (R. Nebr.) felt that since Latin American countries now have gold and dollar holdings as large as they have ever had, they should be able to attract private capital. He could not understand how one could justify dollar loans by the Bank to foreign countries to make purchases in the United States of equipment which United States firms are unable to buy. He also felt that all Export-Import Bank loans have political implications and that the fact a loan is granted to a foreign government strengthens that government's position.

Dean Acheson, Assistant Secretary of State, then inserted a brief statement in the record which he summarized for the Committee. He stressed the need for expedition in the passage of the bill under consideration and the need for loans supplied by the Export-Import Bank in the interim between the cessation of Lend-Lease aid and the commencement of operations by the International Bank. Mr. Acheson explained in some detail why it will be two years or more before the International Bank will be able to make loans in any volume. According to the Articles of Agreement of the Bank, it will be two years after the Bank is organized before 20 per cent of the Bank's capital is paid in. It will probably take more than two years to educate private capital to enter into loans guaranteed by the Bank and to buy the obligations of the Bank.

Mr. Acheson agreed with Chairman Spence (D. Ky.) that he knew of no substantial opposition to the present bill. He was in accord with Rep. Wolcott's interpretation that rehabilitation loans of the Bank would be for the purpose of helping other countries get on their feet and provide employment for their peoples. He pointed out that reconstruction and development loans by the Bank would be essential in the transition period and also as a supplement to loans by the International Bank. Although the Export-Import Bank may make stabilization loans, Mr. Acheson pointed out that none of its credits for that purpose have been so used. Rep. Wolcott wondered if it might not be necessary to reactivate the stabilization fund of the Treasury so that it would not go out of existence before the Bretton Woods enabling legislation is passed. Chairman Spence said he hoped Bretton Woods would be passed in the coming week so that such action would not be necessary.

Rep. Gamble (R. N.Y.) was assured by Mr. Acheson that other countries have institutions with functions similar to those of the Export-Import Bank. Rep. Monroney (D. Okla.) went back to his doubt concerning the wisdom of repeal of the Johnson Act. Mr. Acheson explained that the Johnson Act did not protect United States investors against unsound foreign issues but merely penalized countries in default on their World War I debts. He pointed out that the Johnson Act in any event does not prevent private foreign companies from floating issues in this market. In his opinion, the SEC regulations are adequate protection for United States investors. At present it is the purpose to encourage wise private investment rather than to discourage it. Any necessary regulation can be legislated after the revival of investment has taken place.

Mr. Acheson attempted to interpret for Rep. Sumner (R. Ill.) a quotation dealing with the capacity of countries in certain stages of economic development to absorb capital. He then rehearsed for Rep. Sumner the reasons why it would take two years or more for the International Bank to get into effective operation. Rep. Sumner then questioned Mr. Acheson regarding the accuracy of certain estimates of the amount of dollars the Monetary Fund and International Bank could make available to foreign countries. Rep. Sumner thought the strong sentiment in favor of increasing the lending authority of the Export-Import Bank might be based on the assumption that the Fund and Bank could only make $6 billion available to foreign countries.

Rep. Folger (D. N.C.) expressed doubts similar to those of Rep. Monroney on the wisdom of repealing the Johnson Act and did not seem too assured after Mr. Acheson's explanation of the operations of the SEC since the Commission does not approve securities but only certifies that the information concerning the issuing firm and the prospectus are complete and correct. For Rep. Talle (R. Iowa) Mr. Acheson outlined briefly the loan procedure of the Export-Import Bank. Rep. Buffett (R. Nebr.) returned to his references regarding the need for loans to Latin America in view of the large dollar balances of these countries. He also reiterated his faith in the need for sound fiscal policies and the necessity to investigate such policies of prospective borrowers.

At the close of Mr. Acheson's testimony, Mr. Crowley, Chairman of the Board of Trustees, presented a proposal to the Committee regarding changes in the management of the Export-Import Bank. According to his proposal the Export-Import Bank would be under the supervision of the Foreign Economic Administrator, with the Administrator having supervision over the Bank similar to that exercised by the Federal Loan Administrator over the Reconstruction Finance Corporation. To manage the operations of the Bank there would be a board of directors of five members with the Foreign Economic Administrator and Secretary of State as automatic members, the Administrator acting as chairman. The other three members would be full time directors appointed by the President of the United States and confirmed by the Senate. The board of directors would be non-partisan with not more than three directors being members of any one party. To act in an advisory capacity to the Bank there would be an advisory board of the same membership as the National Advisory Council set up by the Bretton Woods enabling legislation to coordinate the policies of the Fund and Bank and other institutions making foreign loans. The Foreign Economic Administrator would act as chairman of this advisory board. Mr. Crowley suggested this proposal be worked out in conjunction with the legislative counsel of the Committee. He also said there would be no objection to revising downward the maximum lending authority of the Bank.

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July 12, 1945 -- 10:30 A.M.

At the beginning of the session the clerk of the Committee read a letter addressed to Chairman Spence by Ronald Ransom, Vice Chairman of the Board of Governors of the Federal Reserve System. This letter stated that since the activities of the Export-Import Bank are closely related to the responsibilities which would be placed upon the National Advisory Council by the Bretton Woods legislation and since it is most important that the financial policies which govern United States participation in the Monetary Fund and International Bank should also govern the operations of the Export-Import Bank, the Board felt that the members of the board of trustees of the Export-Import Bank should be the same officials who comprise the National Advisory Council. In the Board's opinion the same result would not be accomplished if the officials on the National Advisory Council acted merely in an advisory capacity to the management of the Bank. The Board accordingly recommended that the legislation include a provision that the members of the board of trustees of the Bank be the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System and a fifth member to be appointed by the President of the United States with the advice and consent of the Senate who would be chairman of the board of trustees of the Bank.

Following the reading of this letter, which was incorporated in the record, W. Randolph Burgess, President of the American Bankers' Association, testified before the Committee. He presented a letter from W. L. Hemingway, a past president of the American Bankers Association, in which Mr. Hemingway urged an increase in the capital funds of the Bank. In his prepared statement Mr. Burgess stated that the Association favors a prompt increase in the lending authority of the Export-Import Bank. The Association in its report on "Practical International Financial Organizations" published February 1, 1945, took the position that the Bank's capital funds be increased to $2 billion. Such an increase would be for the purpose of meeting credit needs prior to the setting up of the International Bank and for making loans in which the United States has a special interest and which could be made more effectively through a national agency than through an international body. The principles which should govern the organization and operations of the Bank are, in the Association's opinion, that (1) the Bank should supplement and encourage but not replace private capital, (2) its loans should be sound loans with practical assurance of repayment, (3) the amount of the Bank's loans to any one country should not be excessive and in granting loans the Bank should take into consideration the amount of gold and dollars held by the borrowing country. Mr. Burgess on behalf of the American Bankers Association suggested that the bill provide for the following: (1) a statement as to the relation between the activities of the Export-Import Bank and private lending agencies such as in contained in the articles of agreement of the International Bank, especially a condition that the borrower is unable to obtain the funds elsewhere under reasonable conditions; (2) a definition of the standards which the management of the Bank should observe as follows, that loans should generally be for specific purposes, that they must offer practical assurance of repayment, that reconstruction and development loans should be confined to the cost of imported materials and should not cover the cost of local labor and materials. Mr. Burgess explained that the second standard was offered in place of the requirement in the Wolcott bill that loans be "adequately secured." In his opinion, Export-Import Bank loans because of their nature could not be secured by collateral. Mr. Burgess thought the last standard mentioned should be qualified to permit the financing of local expenditures by the Bank in special circumstances. The third suggestion of the Association was with regard to the management of the Bank, that there be a small, full-time board of directors with adequate salaries to manage the Bank's operations and that this board be responsible as to broad policies to the National Advisory Council set up in the enabling legislation for Bretton Woods. The fourth proposal was that the term of life and capital of the Bank be kept within the range of "nearby expectancies" and be reviewed by Congress from time to time.

Mr. Burgess assured the Committee that he was speaking for the American Bankers Association. He explained to Rep. Gamble (R. N.Y.) that the purpose of suggesting as a standard for Export-Import Bank loans that they offer assurances of repayment was to buttress the management of the Bank in refusing a loan. He favored cutting the extension of the life of the Bank as provided in the bill but felt that in order to preserve continuity in the Bank's operations its life should be extended for at least five years.

Mr. Burgess did not agree with Rep. Sumner (R. Ill.) that the Export-Import Bank would compete for loans with private capital if the management of the Bank continued the past policies of the Bank. He did not share Rep. Sumner's fear that the United States taxpayer would lose because of the Bank's operations. He expressed the hope that the Bank would not use all its $3.5 billion lending authority for direct loans but would continue to use private capital through its take-out arrangements. There followed a discussion between Rep. Sumner and Mr. Burgess in which the terms "lending authority" and "capital" of the Bank were confused. Mr. Burgess finally pointed out that the Bank's lending authority of $3.5 billion represents the total loans and guarantees of the Bank which may be outstanding at any one time. Mr. Burgess felt that there would be pressure on the Bank to make loans at too low rates of interest which would make the Bank competitive with private lending institutions and the International B ank. He believed that the rate charged by the Export-Import Bank should be similar to the minimum rate of 4 to 4½ per cent which may be charged by the International Bank. Rep. Sumner then asked the witness if it were not true that the Bank was free to use its capital at its discretion, that it could charge any interest rate, that its losses would be made good by the Treasury, and that it would compete with private capital. Mr. Burgess replied that the first two points were a question of management, that he did not agree on the third point and that the danger of the fourth was nebulous and would be nonexistent if the principles suggested by the Association were adopted.

Rep. Buffett (R. Nebr.) expressed the fear that the United States Government will soon dominate foreign lending. Mr. Burgess seemed apprehensive of a similar development but pointed out that if there is to be adequate foreign investment, the government must enter the field since the risks of such lending are too great for private institutions to carry. Although private banks now have a large amount of funds which might be used to make foreign loans, their previous experience deters them. During the war, however, private banks have done considerable foreign financing. Mr. Burgess did not agree with Rep. Buffett that the Export-Import Bank should have an interest in or influence over the policies of a foreign government borrower similar to those of a commercial bank in the management of a domestic corporate borrower. He pointed out that the Bank has refrained from attempting to influence the policies or politics of borrowing governments. The testimony of Mr. Burgess concluded the hearings on the Export-Import Bank bill.

Board of Governors
of the Federal Reserve System
Division of Research and Statistics
July 13, 1945