February 3, 1950

Dear Matt:

Thank you for forwarding me the paper containing the three basic problems that must be resolved by the International Rediscount Corporation if it is to be successful.

I will take this up with Walter Sauer and see if we can work something out.

With all good wishes,

Sincerely yours,

Wm. McC. Martin, Jr.

Mr. M. S. Szymczak
Board of Governors
of the Federal
Reserve System
Washington, D. C.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

M. S. SZYMCZAK
MEMBER OF THE BOARD

February 1, 1950.

Hon. William McC. Martin,
Assistant Secretary of the Treasury,
Washington 25, D. C.

Dear Bill:

Attached is a paper which points up the three problems that the International Rediscount Corporation must resolve.

This may afford a basis for discussion of the subject as and when you meet with Clarence Palitz.

Kindest personal regards.

Cordially yours,

Matt

M. S. Szymczak.

PROPOSED INTERNATIONAL REDISCOUNT CORPORATION

The proposed corporation, acting through affiliated companies abroad, would finance the instalment sale of labor saving machinery in foreign countries.

The plan contemplates a type of operation (recourse paper, with suitable down payments and loss reserves) that would be considered reasonably conservative for domestic operations and probably would be satisfactory for foreign operations. Aside from the general question of whether a suitable volume of profitable business could be developed, three broad questions seem to deserve special consideration: (1) The problem of exchange controls, (2) the source of funds for the corporation, and (3) whether the proposed operation would help to ease the "dollar shortage" of foreign countries.

1. The problem of exchange controls. - The problem of exchange restrictions is fundamental. The corporation probably could not hope to operate successfully without solving it. One possibility would be to obtain adequate assurances from the foreign countries involved; another would be to obtain some form of guarantee from an agency of the United States Government, for example, a guarantee such as could be given by the Export-Import Bank under the proposed Point Four legislation.

It seems unlikely that adequate assurances could be obtained from a foreign government by anyone other than a Government agency. Therefore, as a practical matter, it would seem to be virtually a prerequisite to have a guarantee of convertibility by some United States Government agency such as the Export-Import Bank. Although the matter has not been carefully explored it is conceivable that it might be possible to work out some arrangement even under existing authority of the Export-Import Bank.

2. Source of funds for the corporation. - Finance companies in this country have established a favorable credit standing and have been able to borrow amounts equal to several times their net worth. Long-term debt is often equal to 50 per cent to 100 per cent of net worth. Short-term borrowing sometimes exceeds 300 per cent of net worth.

Some earlier memoranda regarding the proposed corporation seemed to contemplate long and short-term borrowings that would be high even for well established domestic operations. There may be a real question whether such borrowings could be achieved through ordinary channels until the corporation had proved itself over a considerable period of time. It is possible, of course, that the Export-Import Bank might be willing to supply funds with a smaller cushion of capital protection than banks would ordinarily require.

3. Whether the proposed operation would help to ease the "dollar shortage" of foreign countries. - The question whether the operations of the corporation would help or hinder the solution of the "dollar shortage" would depend upon the type of equipment financed. If the equipment were luxury goods that did not raise the productivity of foreign countries the net result would be to worsen the "dollar shortage". On the other hand, if the goods increased the productivity of the foreign countries and this productivity either directly or indirectly increased the ability of the countries to export, the financing plan might make a contribution toward easing the "dollar shortage". Even in the latter case, however, it would be necessary to maintain a continuous operation and to withdraw funds from the foreign countries only as permitted by the increased productivity. A sudden effort to withdraw large amounts from a foreign country could cause difficulty even if the underlying operation were basically sound.

1/31/50