BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 18, 1946.

To Chairman Eccles

Subject:

From Mr. Knapp

WM

I hope that you can find time this afternoon or tomorrow morning to meet with Governor Szymczak, Walter Gardner, Alice Bourneuf, and myself to discuss certain matters relating to the Export-Import Bank, in particular the extent to which the System should offer its services to the Bank and the attitude which we should take toward proposals for extending the field of the Export-Import Bank to export credit insurance. The following notes bear on the second point, but adoption of the export credit insurance plan might substantially increase the interest of the Export-Import Bank in using the facilities of the Reserve Banks.

The Foreign Trade Subcommittee (Chairman, Senator Pepper) of the Senate Small Business Committee (Chairman, Senator Murray) has prepared a preliminary and confidential draft of a bill relating to export credit insurance and plans to hold hearings on this subject within a few weeks. Any bill approved by this Committee would then have to be introduced into the Senate and referred to one of the Senate's standing committees for consideration (presumably to the Banking and Currency Committee).

The bill as presently drafted provides for an increase in the capital stock of the Export-Import Bank of ____ million dollars (the amount is left blank in the bill, but the Export-Import Bank estimates that 500 million dollars would be required). This stock would be subscribed by the Secretary of the Treasury and calls could be made on it to the extent necessary to meet any losses incurred by the Bank in export insurance business. The Bank would be authorized to insure American exporters against risks of nonpayment after foreign importers have accepted the goods. Full coverage would be given, however, only in case of losses arising out of the imposition of exchange controls by foreign countries. Losses of other sorts would have to be borne in the first instance by the exporter up to 25 per cent of the value of the goods shipped. The Bank would also be authorized to reinsure up to 50 per cent of similar risks taken by private insurance companies in this field. The Bank is to charge "reasonable premiums" for such insurance and would seek to make the business self-supporting by charging premiums high enough to meet anticipated losses.

The philosophy of the bill is expressed in its full title: "A BILL TO ENCOURAGE FULLER PARTICIPATION BY SMALL BUSINESS CONCERNS IN SOUNDLY EXPANDED FOREIGN TRADE AS A MEANS OF MAINTAINING HIGH LEVELS OF EMPLOYMENT AND PRODUCTION IN THE UNITED STATES". While it is based upon the general concept that expanded exports will help to maintain employment and production, it aims primarily at enabling small business concerns to compete effectively with large firms which at present tend to monopolize our export business. With export insurance, small firms could get more satisfactory commercial bank financing, not only for short-term export credits which now are more readily available to large firms, but also for one- to five-year credits which large firms can usually finance from their own resources.

Last fall, at the request of Senator Pepper, the Board of Governors, with the assistance of the Reserve Banks, conducted a survey of the availability of bank credit to exporters which showed that most commercial banks, and especially the smaller and inland banks which cater to small business firms, would be more interested in financing export transactions if insurance were available.