

OUTLINE

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I. Need for a Foreign Lending Arm of the United States Government

The United States is committed to the support of the international institutions for maintaining the peace, for financing reconstruction and development and for monetary stabilization. The second of these, the International Bank for Reconstruction and Development, for various reasons has not as yet been able to assume the role conceived for it at Bretton Woods. However, no United States institution can be justified as a permanent part of the structure of the United States Government merely because one of the international institutions is not functioning effectively at the moment.

Specifically, the justification for the Export-Import Bank as a permanent foreign lending arm of the United States Government cannot be based on the assumption that the International Bank for Reconstruction and Development is not functioning as an international bank. Nor can it be so justified because the Economic Cooperation Administration's lending program has deteriorated and merged with its grant program.

A case must first be made for the need, if such there be, of a permanent foreign lending arm of the United States Government. Force of circumstance has placed on the United States the role of leading nation of the world; particularly in the field of international credit she has assumed Britain's former role. It is axiomatic that a creditor nation must accept and encourage imports - the government as well as industry must accept this precept and encourage and assist its implementation.

If private commercial banks could handle, in its entirety, the financing of foreign trade, both import and export, there would be no need or justification of a government bank set up by the Congress specifically for the purpose of financing, assisting and facilitating the foreign trade of the United States. The only reason for the existence of an institution such as the Export-Import Bank, authorized to do a general banking business in this field, is the fact that there exists in normal times and particularly in times of international economic or political maladjustment an area in which desirable foreign trade can be financed only by the assumption of a risk on the part of the lending institution which the private bank would not be warranted in undertaking. The risk involved may be too great for private financing for a number of reasons. Too long a period may be required for the private bank to undertake it or the country to which the goods are to be exported may be short of dollars and, as a consequence, may have restrictive exchange or import controls. Again, there may be disturbing political conditions in the importing country which might, over a period of years, create some uncertainties on the part of the commercial bank as to prompt repayment. Hence desirable, and perhaps, necessary foreign trade can sometimes be carried out only with the assistance of a government lending institution such as the Export-Import Bank. For such an institution to restrict its lending to the standards of the commercial banks, and base its policies on those standards would be to forget its *raison d'etre*. The public bank cannot limit its lending to "sound" loans in the strict commercial sense. It must take the longer risk and thereby protect and assist private capital by making only those loans which commercial banks feel unable to

make. In carrying out this policy the Export-Import Bank would be fulfilling the precepts of its statute of supplementing and not competing with private capital. If it limited its lending operations to the risks commercial banks are willing to undertake, it would assure itself of reasonable assurance of repayment to be sure, but would in effect be violating its statute by competing with private capital. This thesis does not imply that a government bank should engage in unsound lending, for with prudent judgment and management experience has shown that there exists reasonable assurance of repayment in many loans which commercial banks would be unable or unwilling to undertake.

The abnormal demands during the last war, in addition to the ever increasing demands of the whole American economy, have drawn on our formerly unlimited resources to such an extent that some manufacturing concerns will, in the course of a few years, be entirely dependent on imports. Without the discovery of great new bodies of ore in the United States for instance, industries using copper, lead and zinc will find themselves in this situation.

It is not merely an immediate demand for strategic materials, although that has a particular significance at the moment. It is the long-term requirements of those basic industries in the economy which must be foreseen and for which provision must be made. It calls for immediate steps to be taken in the development of copper, lead and zinc mines abroad and in the development of sources of many other materials. A United States steel company is already importing considerable tonnages of iron ore from the Itabira mine in Brazil. Can it be said that private

capital would have been able or justified in taking that initial development risk of making ore available from an undeveloped mine 400 miles deep in the jungle which the Governments of the United States, Britain and Brazil were induced to take only under the pressure of war time necessity. Yet with ore from Itabira already helping to supply our industry, there is little doubt but that the \$19,000,000 invested in that development by the Export-Import Bank will be regarded as great foresight on the part of our government in taking a risk which neither private banks nor steel companies could have undertaken. The possibilities of similar developments in Latin America alone are unlimited. Only by governments taking that long early risk with or without private participation can those developments come to pass in time to meet the pyramiding demands of our industrialized civilization. To fulfill these responsibilities the United States Government needs a permanent lending arm. Such financing of imports will not only support our basic industries but will assist the United States to fulfill its role as leading creditor nation of the world.

Aside from these economic aspects of government lending abroad, does the United States Government need a mechanism for making foreign political loans? It is maintained that making a loan to a country for the sole purpose of keeping an unpopular government in power in that country and without economic justification is unwise, naive, undemocratic and ineffective. It is an attempt at a quick and easy solution by polite bribery. But to say that the United States Government, or any government, should never make a loan for political purposes is equally unwise and naive. The solution lies in the belated discovery of an American scholar that "politics and economics are inextricably entwined."

Recognition of this basic fact leads quickly to the conclusion that no foreign loans can be made without producing both political and economic effects in varying degree. A loan which is sound economically will generally have a good political effect. It follows, therefore, that to produce the desired effect a loan must have a sound economic base. Otherwise it is temporary in effect and likely to produce an adverse political reaction.

Can it be said that there was not a worthy political motive in the Itabira Rio Doce loan agreement, namely to cement British, United States and Brazilian ties during the war? Yet its economic base was production of a vitally needed basic material - iron ore.

The assumption that political considerations should be eliminated from government lending is unrealistic. Governments are a part of the body politic and cannot and should not engage in foreign lending operations without political as well as economic motivation and consideration. However, to be effective politically and economically, foreign loans must make an actual contribution to the economic vitality of the borrowing nation. The Export-Import Bank's \$100,000,000 credit to Italy is a case in point.

Foreign lending by a government must be done by a single agency. It must not be dispersed throughout different arms of the government. Only by having it centralized can it be done effectively and with dignity. Experience has proven this. We found during the war that our Allies were prone to play the Lend-Lease Administration off against the Office of Economic Warfare in demanding essential civilian requirements and that the multiplicity of United States purchasing missions and agencies often bid against each other in obtaining needed materials at the expense of

the American taxpayer. The jurisdictional competition between the agencies made this possible. It became necessary to consolidate all of these agencies in the Foreign Economic Administration in order that the United States might speak with one voice abroad on foreign economic matters.

The same principle holds true in the foreign financial field. Should it be decided to try to separate political and economic foreign lending - the Congress undertaking the former directly and the Export-Import Bank handling the latter, the so-called "borrowers' union" would be quick to play the one against the other. The indivisibility of the political and economic factors would make this possible. The lending arm of the United States Government must be a single agency with the full responsibility.

II. The Export-Import Bank -- Do Its Present Policies and Operations Fill the Role of the Foreign Lending Arm of the United States Government?

It would be an overstatement to say that the Export-Import Bank knows what it can not do but is not sure of what it can or should do. And yet, to clarify one's thinking on the role of the Bank, it seems necessary to point out that the Bank's policies have been long on the side of self-limitation and short in the field of positive programming.

(1) The Bank has shied away from "balance of payments" loans. And yet two of our most successful loans have been just that, e.g., Canada and Belgium. Furthermore, no loan can be made abroad which does not have in some degree a balance of payments angle.

(2) The Bank has, with very few exceptions, insisted on government or central bank guarantees when lending to a private entity abroad. This

constituted prudent judgment immediately after the war. Is it necessary, in all cases now and in the future, to insure reasonable assurance of repayment?

(3) The Bank has sought to make only loans which are "sound" in the sense that they would be made by private banks in normal times. In other words, we have tried to refrain from assuming the large risks (greater than the private banks could undertake even in normal times) in the development of sound economic projects.

(4) The Bank decided not to make any reconstruction or long-term development loans as soon as the International Bank became operative. This was done quite properly in order to eliminate, if possible, any duplication or overlap between the two institutions and to support the international institution. One year later, however, the United States had to resume unilateral reconstruction lending through the Economic Cooperation Administration because the International Bank could not assume the burden.

(5) The Bank has refrained from engaging in promotional activity, yet the statute of the Export-Import Bank prescribes that it shall not only finance but assist and facilitate the foreign trade of the United States. The Bank has quite properly refrained from solicitation of credits. In the administration of some credits, however, there is much which the Bank might do to facilitate foreign trade. A case in point will illustrate this suggestion that the Bank broaden the scope of its operations in the foreign trade field. The Rio Doce - Itabira project was financed in part by the Bank at a time when the war-time allies feared the loss of some of their existing sources of iron ore. With \$19,000,000 at stake in the enterprise and present assurance that the Brazilian Government will play its part in the project, there is fair prospect of increasing tonnage of high-grade

iron ore being delivered to the east coast port at Vittoria. American steel companies are concerned about decreasing grade and resources of domestic ore on the Mesabe Range. They are skeptical as to practicability of using Itabira ore on two counts. Lack of assurance of constant tonnage being delivered at the port of Vittoria due to the ineptness of Brazilian Management and the difficulties of inland transport in Brazil and the long ocean haul give them pause.

It is suggested that the Bank solicit the help of American steel companies in attempting to make the Rio Doce Itabira project a success. This is not a new suggestion. The objection has been raised that the Bank would become vulnerable to criticism by dealing with one or two United States steel companies. This objection can be overcome by adopting in this instance the industry advisory committee technique which operated successfully during the war, both in the War Production Board and the Foreign Economic Administration, and has been continued by the Department of Commerce.

The Bank would invite all of the U. S. steel companies, big and little, to designate representatives on a voluntary business advisory committee to come to Washington for the purpose of advising with officials and staff of the Export-Import Bank on how best to solve the problem of successful transportation both inland in Brazil and on the ocean, of Itabira iron ore in order to make that ore available to American industry. The advice of this committee might also be asked with regard to the problem of management and operation. If some feasible plan evolved it might be advisable to call in representatives of the shipping companies engaged in Latin American coastwise trade to solve the problem of ocean haul.

Thus the Bank would be assisting and facilitating American foreign trade, stimulating imports, contributing to the productivity of Brazil, thereby making possible the amortization of the loan, and building up two-way trade between the United States and Brazil.

Other cases in point are the credits extended by the Bank to the Finnish-American Trading Corporation and the Italian Handicraft Industries. These were worthy credits designed to revive handicraft industries and to promote imports into the United States. In the case of Italian Handicrafts, the Bank deleted an item for promotional activity in advertising and selling. Both of these enterprises are now encountering great difficulty in merchandising their products at Finnish House and Italian Handicrafts in New York. For these projects to succeed the borrowers need dollars with which to hire American technicians skilled in merchandising and advertising in order to make the American public aware of the existence of their products. If the Bank would lend dollars for this purpose, it would be facilitating, financing and assisting imports into the United States and securing more reasonable assurance of repayment.

(6) There has been a tendency in the Bank to say "No" in the first instance when an application is presented. Granted that a healthy skepticism is an essential part of the prudent banker's make-up, it is maintained, however, that the government banker, who is forbidden by law from competing with the private banker, should not do so even in this respect, particularly when his purpose, likewise prescribed by law, is to undertake those risks which are in the interest of American foreign trade and which the private banker cannot undertake. This attitude has in many instances resulted in the Bank's missing the time when the Bank could act one way or

the other on its own initiative, and later finding itself under conflicting pressures because of the delay and consequently unable to take definitive independent action. In some instances the Bank might ultimately have to disapprove because of the force of circumstance to the discomfort and financial loss of the American traders concerned.

(7) The Bank has been inclined to refrain from making political loans even when such loans had economic justification. (This question has been discussed in detail in the first section of this paper under justification of a foreign lending arm of the United States Government.)

(8) The Bank refrains from making long-term loans. This position was based in part on the assumption that the International Bank would undertake the long-term development projects. However, is not the bulk of foreign development a long term proposition -- foreign development which is in the interest of American foreign trade. The development of iron, copper, lead or zinc mines are long term projects. It often takes many years to bring a mine into production.

(9) The Bank refrains from extending credits for exploration, confining its financing to development of known resources. Exploration, as distinguished from wildcatting, must be done if new sources of mineral and petroleum are to be discovered and developed. Who is to take that risk? Neither the United States commercial banks or private venture capital will normally take that risk of financing exploration in foreign lands. Yet, it must be done -- many of our domestic sources are running out. Who can take it other than the lending arm of the United States Government.

(10) The Bank has refrained from undertaking credits which looked suitable when the International Bank wanted to make them but could not for

charter or other reasons. In undertaking a loan in such circumstances, the Bank would merely be fulfilling its responsibility and would be doing no disservice to the international institution. In not making a desirable loan in such circumstances, it might be doing a disservice to the fulfillment of its own responsibility.

Perhaps the Bank has leaned over backwards in its efforts at cooperation. The Bank has never taken the initiative in seeking to broaden its program or with regard to increases in its lending authority. If it is to embark on a positive program of determining what projects would be desirable in the broad interest of the United States and encouraging worthy development programs, instead of merely waiting for business, desirable and undesirable, to come to it, it must take the initiative with regard to the shaping of its program and any necessary legislation pertaining thereto.

III. Relationship with Other Agencies - National and International.

International Bank - When the International Bank for Reconstruction and Development became operative, the Export-Import Bank brought to a close its reconstruction and long term development lending. Close liaison has been maintained between the two institutions and duplication and overlap has been kept at a minimum. We have attempted to draw the line of demarcation between the functions of the two institutions on the basis of long-term general purpose and development versus short and medium term foreign trade loans. By and large the result has been negative at least in the field of long-term development lending which the International Bank has found itself unable or unwilling to do partly because of its dependence for its loan funds on the private investment market and partly due to the

apparent lack of recognition on the part of its present management of its basic character as an international institution. However, the United States is committed to the support of the international institution and the Export-Import Bank, as the lending arm of the United States Government, must lend substance to that United States commitment. Nevertheless, it is not incumbent on the Export-Import Bank to restrict its current operations and determine its future character on the present ineptness of the International Bank. It can go forward in making sound economic loans of varying term and of a developmental nature which the International Bank, because of charter difficulties or otherwise, is unable to undertake.

International Monetary Fund - There is no conflict in operations between the Fund and the Export-Import Bank. The relationship is primarily consultive.

Economic Cooperation Administration - The Act creating the ECA prescribed that the Export-Import Bank should make and administer loans on terms determined by the Administrator of ECA in consultation with the National Advisory Council. The role of the Bank contemplated in the Act has been reduced to the point where the Bank plays simply a minor agent's role. This has come to pass as a result of the procedure adopted by ECA whereby loans and grants are merged in the same program. As is always the case, the good currency depreciates to the value of the cheaper currency when the two are mixed. Thus, ECA loans mixed with grants have in effect become grants with a loan facade.

Consequently the first year's operations of ECA will turn out to be virtually a grant program. No attempt is being made to deprecate

a grant program in the first phase of European Recovery. Perhaps it was a mistake to try to force loans in that first phase of the program but the grant program was essential. Pump priming in that quantity should so stimulate European economies as to cause sound economic projects to emerge on which constructive loans can be made. This being the case, the foreign lending arm of the United States Government (the Export-Import Bank) should undertake that lending program in the second phase of European recovery. If the Bank believes this, it should take the initiative in so suggesting.

Department of State - There exists no need to rehearse the history of the Bank's relationship with the State Department. The present working relationship is satisfactory. State participates in the Bank's actions but does not dominate. State keeps the Bank informed as to foreign policy considerations which are always taken into account in the Bank's deliberations.

IV. A Positive Program for the Export-Import Bank.

If the Bank is to assume the role of the sole foreign lending arm of the United States Government, its approach to such a role must be positive not negative. It must seek ways and means of fulfilling this necessary role and now is a propitious time for it to take the initiative and move in that direction. The first step should be the adoption of a modus operandi encompassing the following steps. In recognition that the American national interest is best served by stimulation of healthy multilateral world trade, the Bank should proceed:

(1) To facilitate United States foreign trade in and out, export and import, to the extent of promoting American foreign trade through the medium of Advisory Committees of American importers, users of imported materials in their manufacturing processes, e.g., steel companies who can use Itabira or Steep Rock iron ore and of United States commercial banks who engage in foreign financing. The latter committee could facilitate the Bank's efforts to obtain a maximum of private capital in foreign financing. Also an Advisory Committee of Exporters, whose membership would be a cross section including the small manufacturing concern engaged in foreign trade but which cannot afford a foreign department as well as the large American manufacturer, e.g., General Electric, Westinghouse, General Motors, etc.

(2) To establish a transfer section in the Bank for handling transfer guarantees and possible export insurance. To this end the Bank should initiate any necessary legislation.

(3) In assuming its role as the foreign lending arm of the United States, to undertake to lend to ERP countries in the second phase of the European Recovery Program following the initial phase of the disbursement of grants by E.C.A. and in consultation with the President and the National Advisory Council to initiate the necessary legislation.

(4) To extend development credits in furtherance of two-way United States foreign trade to Latin America and anywhere in the world supplementing and not competing with the International Bank.

(5) Through advice, suggestion and assistance to develop into the foreign trade center of the United States and to issue a quarterly or monthly publication reporting the facts and developments with regard to

Export and Import and foreign financial problems, as a guide and for the information of American exporters and importers and commercial banks. This to be done under our present Act in pursuance of the directive to assist and facilitate American foreign trade, and of encouraging, supplementing and not competing with private capital.

(6) Consult and advise with officials of industrially underdeveloped countries both in Washington and the foreign countries concerned in an effort to help them determine what projects would be most creative in the development of their respective economies. This will involve sending missions from time to time at the request of the foreign nation. (Our Department of Agriculture has done most constructive work in this manner which has proved to be decidedly in the national interest.)