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INCREASING THE LENDING AUTHORITY OF THE EXPORT-IMPORT BANK OF WASHINGTON

July 12, 1945.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. Spence, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 3771]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 3771) to provide for increasing the lending authority of the Export-Import Bank of Washington, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. General Statement

With the outbreak of war, the normal foreign trade of the United States was necessarily interrupted. Normal commercial trade with foreign countries in many instances terminated. The successful prosecution of the war, however, required and resulted in a tremendous increase in our exports. During the war, foreign markets provided for the employment of hundreds of thousands of workers and absorbed an unprecedented volume of the products of our farms, our industries, and our mines. In the reconversion period and when the war is over the maintenance of a high level of foreign trade will be even more essential. Millions of men and women now in our armed forces and millions of war workers will want jobs and thousands of enterprises will be ready for peacetime production.

With the close of hostilities in Europe, there are tremendous demands for American-made goods from countries which have been cut off from most sources of civilian supplies during nearly 6 years of war and Nazi occupation. A large part of this demand is due, unfortunately, to the destruction which has been wrought by the war. Cities must be rebuilt and transportation and communication facilities restored. Factories, mines, and farms need new equipment. Industries require raw materials to start peacetime production.

In many parts of the world rich natural resources await development. The people are ready to put their labor and the natural wealth of their countries to work. The time is at hand for an era of industralization in these areas. Experience has shown without contradiction that the trade of the United States prospers most with the industrialized areas of the world.

The many markets in all parts of the world need what we can produce. To these markets the American farmer, manufacturer, and laborer will want to and should be able to send his products. The proposed legislation is a step in the direction of making this possible.

Our potential foreign customers may be roughly divided into two principal categories. Some have the dollars or the credit with which to acquire American goods upon terms which exporters and private financial institutions are willing to extend without any further endorsements. Some will want credit terms which are reasonable and will involve such sums, maturities, or interest rates that private sources of capital will not desire or be able to undertake them alone.

Many Americans will want to participate in postwar foreign trade. They have the ability and the good business standing to engage in this trade, but may lack the financial resources to enter foreign markets. Extension to them of the facilities of the bank will solve this difficulty and permit them to share in the expansion of our foreign trade.

Under the proposed legislation we will be helping to sell United States goods abroad and we will be helping our potential foreign customers to purchase the goods they need. Goods produced in the United States to meet demands abroad will mean increased employment and production in the United States, more jobs for our men and women and returning veterans, greater opportunities for the manufacturers, the farmer, the owner of mineral resources, and the private investor.

American machinery, tools, raw materials, and services will enable other nations to rebuild or develop their industries and to produce goods which they can sell. This will increase their ability to service and pay their debts and to buy more goods from us. Their increased productive capacity will create more jobs for their people and raise their standards of living. This, too, will make more and better customers for American products.

Domestically strengthened and stabilized through the reestablishment and development of their economy our allies will be better able to protect and maintain the peace which we are now fighting for and for which we have laid the foundation at San Francisco.

The bill increases the lending authority of the bank by 2.8 billion dollars. Compared to the foreign need for goods, this is a comparatively small sum but in the coming year most of our production may be required for carrying the war against Japan to a successful and early conclusion. In addition, by making available only a part of the funds required for financing foreign trade, when the bank does require an additional increase in its lending authority the Congress will be able to review the uses to which the present proposed authorization has been put and determine the extent to which the lending authority of the bank should be further increased.

Under the proposed legislation the bank will be able to expand considerably the activities it has been carrying on so successfully in the past 10 years to facilitate the foreign trade of the United States.

The bank will continue its past policy of making loans only when private facilities do not undertake the job and that it will, to the greatest extent possible, encourage the participation of private capital. The increase in the lending authority of the bank will permit an expansion and increase in short-term loans to finance United States agricultural and industrial exports, medium- and long-term loans to other countries for reconstruction and development projects, and special transactions such as the guaranty of export credits, the underwriting of letters of credit, and the extension of revolving lines of credit to small United States exporters and importers.

The proposed legislation will permit the bank to help the war-devastated countries obtain materials for reconstruction purposes. This will be particularly important in the immediate period ahead. Lend-lease aid is not available for reconstruction purposes. The International Bank for Reconstruction and Development will not come into full operation during the next year and a half to two years, and even then the need for an expanded Export-Import Bank will continue. Immediate financial help is necessary in order to prevent chaotic conditions abroad. The Export-Import Bank will be able to finance foreign shipments to some extent by taking over certain phases of the 3 (c) lend-lease agreements as suggested by the President, and in other instances by financing countries who have been cut off from necessary supplies as a result of war conditions. Such financing will help stabilize the war-devastated countries and start them promptly on the road to recovery from the war.

II. Organization and History of the Export-Import Bank of Washington

The Export-Import Bank was established in 1934 to help stimulate the recovery of our foreign trade from the low level to which it had fallen during the depths of the depression. At that time, the President, pursuant to the National Industrial Recovery Act, authorized the Secretaries of State and Commerce to form the bank, which was thereupon created under the laws of the District of Columbia on February 12, 1934.

In January 1935, the Congress continued the bank as an agency of the United States until June 1937 and, in addition to the powers contained in its charter, gave it additional banking powers to be exercised "for the purpose of aiding in the financing and facilitating of exports and imports and the exchange of commodities between the United States and any of its territories and insular possessions and any foreign country or the agencies or nationals thereof." The act was amended subsequently to continue the bank as an agency of the United States until January 22, 1947.

Originally, there was no limit imposed by law upon the lending authority of the bank. In 1939, however, the act of January 1935 was amended to provide that loans outstanding at any one time should not exceed $100,000,000. The limit was increased to $200,000,000 in March 1940 and to $700,000,000 by the act of September 26, 1940. That act authorized the Reconstruction Finance Corporation to supply funds to the bank up to a maximum of $500,000,000 to enable it to make additional loans, including specifically loans "to assist in the development of the resources, stabilization of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere."

The bank operated as an independent agency from 1934 until July 1939, when it was made a part of the Federal Loan Agency under Reorganization Plan No. I. In 1942, the bank was placed by Executive order under the office of the Secretary of Commerce. In July 1943 it was transferred by Executive order to the Office of Economic Warfare. When the Office of Economic Warfare later was consolidated into the Foreign Economic Administration, in September of the same year, the bank was also transferred to the Foreign Economic Administration. As a separate corporate entity, the operations of the bank have continued to be administered by its president, subject to the direction of the Foreign Economic Administrator and the board of Trustees of the bank under the chairmanship of the Administrator.

Except for the original $1,000,000 transferred to the bank in 1934 in payment for the common shares issued jointly to the Secretaries of State and Commerce, all of the funds of the bank have been obtained by the sale from time to time of preferred stock to the Reconstruction Finance Corporation and from earnings. A total of $174,000,000 of preferred stock has been issued and is now outstanding.

Pursuant to its charter, the bank is controlled by a board of 11 trustees elected annually by the stockholders, subject to the approval of the President of the United States. The right to vote all of the stock, both common and preferred, is vested in the Foreign Economic Administrator. In the interim between Board meetings, the powers of the Board are exercised by an Executive Committee of seven trustees. Loans are made only after formal authorization by the Board of Trustees or the Executive Committee.

The operations of the Bank have involved a wide variety of transactions, although all of them have been undertaken for the fundamental purpose, laid down by Congress, of promoting the export and import trade of the United States either directly or indirectly. To avoid competition with private institutions, the bank has confined its activities to financing of a character or in an amount not obtainable from private sources. The techniques employed by the bank are, in general, those commonly used in the field of international finance and investment. However, in order to meet the changing needs of our foreign trade and to provide credit facilities for the small as well as the large exporter and importer, it has been necessary to maintain a high degree of flexibility in operating techniques.

It is difficult, because of their diversity, to classify the loans of the bank into hard and fast categories. Nevertheless, the following types of credits may be identified in its operations during the past 11 years.

(1) The bank has extended relatively short-term credits to all exporters of a given commodity to assist in financing the sale and export of agricultural surpluses. For example, before the war the bank assisted in the sale of raw cotton to foreign spinners and dealers by establishing through United States commercial banks lines of credit available to American cotton shippers and guaranteed by leading banks in the countries of purchase.

(2) The bank has extended credit directly to American firms exporting industrial products, particularly heavy machinery and elec-

trical and railway equipment. Such transactions have usually been accomplished through the purchase without recourse by the bank of the obligations of the foreign purchaser endorsed or otherwise unconditionally guaranteed by a foreign bank or a foreign government.

(3) The bank has extended credit lines to individual firms which are experienced and of good repute but which are hampered by lack of capital in obtaining adequate accommodation from private sources. Such credits are revolving and are available to the exporter for limited periods, generally from year to year, upon presentation for discount by the bank through its agent bank of 90-day drafts on approved foreign purchasers. Comparable arrangements are available to United States importers.

(4) The bank has extended credits to make possible the maintenance of essential purchases from the United States by certain countries during periods when they were temporarily short of dollar exchange. Loans of this type have been made principally to banks in Latin-American countries. They were especially important after the cutting off of European sources of supply in 1940 and the consequent necessity on the part of Latin-American countries of concentrating their purchases in the United States at a time when their exports to the United States were still at relatively low levels.

(5) Loans have been made to foreign governments and their agencies to assist in financing the cost of materials, equipment, and services required for the construction of productive public works and the development of natural resources and thereby to increase the foreign-trade potentials of the countries concerned.

(6) The bank has established a number of credits to stimulate foreign production and to expedite the transportation of strategic materials required for war production in the United States.

(7) Because of wartime transportation difficulties, the bank inaugurated a plan for underwriting letters of credit opened in this country by United States commercial banks in favor of approved foreign banks. A feature of this service was a provision to make payment against manufacturers' certificates of completion or railway bills of lading instead of the ocean shipping documents customarily required. The bank assumed the responsibility for shipment of the goods within 3 months from the date of payment to the manufacturer. This service went beyond any previous facility offered United States exporters, but it is believed that it has been extremely worth while because the effect has been to keep established trade channels open during the war so far as possible.

From its organization to June 15 of this year, the Export-Import Bank has authorized loans aggregating $1,269,000,000. Of these total authorizations, $397,000,000 were canceled either because the applicants found they did not require them or arranged to obtain necessary credits from private sources. Actual disbursements have amounted to $497,000,000, of which $289,000,000 have been repaid. As at the close of business on June 15, 1945, outstanding loans totaled $208,000,000 and undisbursed commitments aggregated $375,000,000.

The earnings of the bank, after payment of all administrative expenses, have amounted to approximately $42,000,000. The bank has paid dividends of over $18,000,000 on the preferred stock held by the Reconstruction Finance Corporation. This leaves undivided profits of about $24,000,000 as of the close of business on June 15, 1945.

III. Explanation of the Bill by Sections

The bill reorganizes the management of the bank, removes certain restrictions on its operations, and simplifies the method by which the Bank is financed. It continues and expands the funds and the authority of the existing bank, with its present assets and liabilities.

SHORT TITLE

Section 1 provides a short title: "Export-Import Bank Act of 1945."

POWERS OF THE BANK

Subsection 2 (a) continues the Export-Import Bank of Washington as a banking corporation organized under the laws of the District of Columbia and as an agency of the United States. It continues the existing powers under the bank's charter and restates and clarifies the powers conferred upon the bank by statute to makel oans, to discount, rediscount, or guarantee notes, drafts, bills of exchange, and other evidences of debt or to participate in the same for the purposes of promoting the foreign trade of the United States.

Subsection (b) provides that it is the policy of the Congress that the bank in the exercise of its functions should supplement and encourage and not compete with private capital, and that loans, so far as possible consistently with carrying out the purposes of subsection (a), shall generally be for specific purposes, and in the judgment of the Board of Directors, offer reasonable assurance of repayment.

MANAGEMENT OF THE BANK

Section 3 provides for the management of the bank. Subsection (a) established by law the Board of Directors of the bank which is to consist of the Foreign Economic Administrator as Chairman, the Secretary of State, and three persons appointed by the President for a term of 5 years at a salary of $12,000 per year with the advice and consent of the Senate. If the Foreign Economic Administration ceases to exist in the Office for Emergency Management in the Executive Office of the President, the Administrator of the Foreign Economic Administration will no longer be a member of the Board, and the President is to appoint a member to take his place. In that event the chairman of the Board will be designated by the President. Not more than three Directors may be members of any one political party. The Secretary of State may, to such extent as he deems it advisable, designate to act for him in the discharge of his duties as a member of the Board any officer of the Department of State who shall have been appointed by and with the advice and consent of the Senate.

Subsection (b) provides that a majority of the Board of Directors shall be a quorum.

Subsection (c) empowers the Board of Directors to adopt such bylaws as are necessary for the management and functioning of the bank.

Subsection (d) establishes an Advisory Board consisting of the same personnel as comprises the National Advisory Council on international monetary and financial problems provided for in the Bretton Woods Agreement Act, except that the Chairman of the Board of Directors of the bank serves as Chairman in lieu of the Secretary of the Treasury.

Subsection (e) provides that until October 31, 1945, or until two of the appointed members of the Board of Directors have qualified, whichever is the earlier, the affairs of the bank shall continue to be managed by the existing Board of Trustees.

Subsection (f) establishes the bank as an independent agency of the United States Government and provides that its functions, powers, and duties shall not be transferred or consolidated with any other department of the Government unless the Congress shall otherwise by law provide.

CAPITAL STRUCTURE

Sections 4 and 5: A capital stock of $1,000,000,000 is authorized for the bank. Outstanding common and preferred stock is to be surrendered to the bank and canceled. The Secretary of the Treasury is to pay the Reconstruction Finance Corporation the par value of the preferred stock which the Reconstruction Finance Corporation will surrender and any dividends on preferred stock accumulated and unpaid to the date of its surrender. Of the authorized amount of capital stock of $1,000,000,000 payment for $175,000,000 equivalent to the par value of the outstanding preferred and common stock will be made by the surrender of such stock. Payment for the balance, $825,000,000, will be made by the Secretary of the Treasury at the call of the Board of Directors of the bank. Certificates evidencing stock ownership are to be issued by the bank to the President of the United States. Authorization is given to the Secretary of the Treasury to finance these payments as public-debt transactions.

BORROWING POWER

Section 6 authorizes the bank to issue obligations for purchase by the Secretary of the Treasury in an amount not to exceed 2½ billion dollars. The Secretary of the Treasury is authorized to treat this as a public-debt transaction.

LENDING AUTHORITY OF THE BANK

Section 7 provides that the bank shall not have outstanding at any one time loans and guaranties in an aggregate amount in excess of 3½ times the authorized capital stock of the bank or 3½ billion dollars.

OTHER LAWS

Section 8 provides that the provisions of the existing charter relating to the term of existence of the bank, its management, and to its capital stock are superseded by this legislation and exempts the bank from complying with any law relating to the amendment of certificates of incorporation or to the retirement or increase of stock of the District of Columbia corporations and from the payment of fees or taxes to the District of Columbia in connection with its capital stock.

REPORTS TO CONGRESS

Section 9 requires the bank to transmit semiannual reports of operations as of the close of business on June 30 and December 31 of each year.

REPEAL

Section 10 repeals existing legislation pertaining to the bank contained in section 9 of the act of January 31, 1935, as amended.

JOHNSON ACT

Section 11 relieves from the prohibitions contained in the Johnson Act any person, including any individual, partnership, corporation, or association, who acts for or participates with the bank in any operation or transaction or acquires any obligation issued in connection with any operation or transaction engaged in by the bank.

IV. CONCLUSION

The committee believes that this bill is necessary to the expansion of our foreign trade and to enable the war-devastated countries to begin the immense task of reconstruction which lies ahead. The committee recommends, accordingly, that the bill be enacted as promptly as possible.

CHANGE IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, section 9, as amended, of the act of January 31, 1935, which the bill, as introduced, proposes to repeal, is set forth below, enclosed in black brackets:

[SEC. 9. Notwithstanding any other provision of law, the Export-Import Bank of Washington, and the Second Export-Import Bank of Washington, District of Columbia, banking corporations organized under the laws of the District of Columbia as agencies of the United States, pursuant to Executive orders of the President, shall continue, until the close of business on January 22, 1947, or such earlier date as may be fixed by the President by Executive order, to be agencies of the United States, and in addition to existing charter powers, and without limitation as to the total amount of obligations thereto of any borrower, endorser, acceptor, obligor, or guarantor at any time outstanding, said banking corporations are hereby authorized and empowered to discount notes, drafts, bills of exchange, and other evidences of debt for the purpose of aiding in the financing and facilitating exports and imports and the exchange of commodities between the United States and any of its territories and insular possessions and any foreign country or the agencies or nationals thereof, and, with the approval of the Secretary of the Treasury, to borrow money and rediscount notes, drafts, bills of exchange, and other evidences of debt for the purposes aforesaid. During the continuance of such agencies, the Secretary of State and the Secretary of Commerce are authorized and directed to continue, for the use and benefit of the United States, the present investment in the capital stock of said banking corporations, and they are hereby authorized to use all of their assets, including capital and net earnings therefrom, except such earnings as may be required from time to time to pay dividends upon their preferred capital stock, and to use all moneys which have been or may hereafter be allocated to or borrowed by them, in the exercise of their functions as such agencies: *Provided*, That the Export-Import Bank of Washington shall not have outstanding at any one time loans or other obligations to it in excess of $700,000,000, the capital for which the Reconstruction Finance Corporation, when requested by the Secretary of the Treasury with the approval of the President, may continue to supply from time to time through loans or by subscription to preferred stock: *Provided further*, That the Export-Import Bank of Washington shall not make any loans to any government which was in default in the payment of its obligations or any part thereof to the Government of the United States on April 13, 1934, or in violation of international law as interpreted by the Department of State or for the purchase of any articles, except aircraft exclusively for commercial purposes, listed as arms, ammunition, or implements of war by the President of the United States in accordance with the Neutrality act of 1939.]

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