

MEMORANDUM to Mr. Martin:

The President's Speech and Future Eximbank Activity

Introduction - The President's speech of March 12 may have several vitally important implications for the future activity of the Bank: by establishing the principle of outright political loans with supervision exercised through economic, financial and military missions at the scene, it sets up a lending technique that, if approved by Congress, will fill the most serious gap in the existing U.S. foreign lending machinery and one that seems fully as applicable to China (and possibly Italy) as to Turkey and Greece. If China and Italy should later be brought into the outright political loan framework, the Eximbank would then be faced with only one set of problems that fall outside the field of its traditional activity, i.e., the Austrian and German problem.

Political Loans and the Chinese and Italian Problem - It seems to me that in every important respect the Chinese situation today corresponds to the Greek situation. Under these circumstances, it is my feeling that any U.S. financial assistance to China should be placed on the same basis as the assistance to Greece and Turkey. In view of the corrupt and inefficient character of the Central Chinese Government, I do not see how any financial assistance to China could be properly administered from Washington. The situation, as in Greece, calls for a highly capable and hardboiled economic and financial mission in Nanking which will use any U.S. assistance as the lever for straightening out the ~~internal~~ <sup>internal</sup> economic ~~con-~~ <sup>sit-</sup> ~~dition~~ <sup>uation</sup> there and insure that the aid is not wasted.

The case of Italy is slightly different. It is my feeling that from a purely economic point of view the Eximbank earmarking of \$100 million plus the

proposed relief grant-in-aid should take care of basic Italian needs for 1947. The problem here is a political one. I think it quite likely that the Italians, once Congress approves the Greek and Turkish credit, will ~~make~~ attempt to be placed on a similar footing and may succeed in view of their superb propaganda machinery. From the Bank's point of view, it might be highly desirable~~x~~ for the problem to be resolved by a cancellation of the present Eximbank earmarking and the substitution therefore of an outright political loan to be administered on the Graeco-Turkish pattern.

I see several alternative approaches for handling the Chinese and Italian problem (assuming Congress approves the Greek and Turkish credits).

First, the Eximbank's lending authority could be reduced from 3.5 to 3.0 billion. The \$500 million thus saved would be used for two credits - \$250 million to China and \$250 million to Italy - administered along the lines of the Greek and Turkish credit.

Secondly, the Export-Import Bank's charter could be broadened and the \$500 million now earmarked for China reallocated 50-50 between China and Italy, with the new credits being administered by the Bank through economic and financial field missions in accordance with the Greek and Turkish pattern.

If a category of outright political loans is established by Congress, it seems to me that all political loans should be administered on the same basis, i.e., either entirely outside of or within Eximbank. By and large, I feel, the arguments are in favor of a clear cut differentiation between political reconstruction loans and Eximbank type reconstruction loans with the former type administered outside the Bank.

I do not think, however, that actual differentiation between the two cate-

gories will prove as clear-cut as one would like. I fear that the political loans will have an adverse effect on the repayment prospects of the previous Eximbank credits. As you know, I have long suspected that the most favorable loan terms granted to foreign governments in this period would sooner or later tend to become standard terms for all the Bank's reconstruction credits. On this reasoning, it has been my view hitherto that the French and other Eximbank debtors would press for British loan terms on the first occasion that the British invoke the interest waiver clause of the A-A Financial Agreement. The recent French request for a waiver of the interest payment <sup>due</sup> July 1, 1947 on the war settlement account certainly points in this direction. If the new political loan technique comes into the picture, I think the Bank must bear in mind the risk that it will furnish the excuse for ultimate wholesale defaults on the Bank's reconstruction credits. Accordingly it seems to me that there are some arguments for the broadening of the Bank's charter and the administration of <sup>all</sup> the political loans through the Bank.

The Austrian and German Problem - The Austrian and German problem are, as far as Eximbank is concerned, precisely the same, namely, the financing of category B import requirements. As a result of the British developments of recent weeks the United States will probably be compelled to carry a higher percentage of the financial assistance required by Germany and Austria than has hitherto been contemplated. In the case of Germany, it seems to me that it would be in U.S. interests to carry a considerably higher fraction of the category B financing requirements and let the United States and the British share on the category A financing on the previously agreed 50-50 basis. This arises from the fact that category B, unlike category A, financing can be undertaken on a short-term, i.e., two to five year basis, with reasonable assurance of repayment. (The US-UK bizonal authorities have agreed to treat category B financing as a first charge upon German exports.)

In the case of Austria, any category B financing will probably have to be made on a long-term basis, especially if the Hoover proposal for providing relief supplies on a loan rather than a grant-in-aid basis is adopted.

It is my view that the Austrian and German problems should be treated as a unit and the following course of action followed by this Bank: It should obtain the endorsement of the National Advisory Council to an extension of \$100 million for the financing of category B imports into Germany (on a three to five year credit basis) and a \$50 million credit (long-term) for financing of Austrian category B requirements, both subject (as in the case of the Italian non troop pay account settlement) to clearance with the House and Senate Banking and Currency Committees.

I consider informal clearance by Congress of any Eximbank assistance to Austria and Germany essential for two reasons:

In the first place, financial assistance by Eximbank to Germany and Austria obviously was not contemplated at the time of the passage of the Export-Import Bank Act of 1945. In making such advances the Bank would in fact be supplementing the War Department appropriations for Germany and Austria for the coming fiscal year and reducing the scope of normal Eximbank activity by the same amount.

Secondly, in view of the statutory requirements of the Bank Act of 1945 and the uncertainties of the Austrian situation, the risks involved in any credit extension to Austria should be made clear to Congress.

I believe that it is highly desirable for this country to provide the necessary category B financing for Austria and Germany and that this bank is the logical source of the financing provided that the House and Senate Banking and Currency Committees raise no objection. If they do, however, it seems to me that special statutory authority would be necessary. <sup>in any event</sup> And failure to refer the matter in-

formally to the two Committees would lay the Bank open to the accusation that it is circumventing Congress and acting contrary to the spirit of its charter.

March 13, 1947