

ADDRESS GIVEN BY MR. WM. McC. MARTIN, JR., AT THE THIRTY-FIFTH ANNUAL MEETING OF THE TEXAS COTTON ASSOCIATION, HOUSTON, TEXAS -FRIDAY, MARCH 22, 1946 .

RECONSTRUCTION, COTTON CREDITS, AND THE EXPORT-IMPORT BANK

It would be presumptuous, indeed, for me to come to the great State of Texas and try to tell the Texas Cotton Association anything about cotton. However, I do welcome your hospitality and an opportunity to try to learn from you something about how the Export-Import Bank can be more helpful to you in promoting the industry which you represent. I would also like to tell you what we have been doing in financing reconstruction and how we think this fits in with the general program of building world commerce and establishing a rising standard of living and a high level of employment for people everywhere.

These are serious times we are living in - times when it is difficult to keep one's balance and perspective. Relatively, the United States has been a favored nation. Compared to many other parts of the world, our suffering has been slight. The end of any great war brings a period of cynicism and doubt. When we read the headlines in the newspapers, it is sometimes difficult to see any sun at all shining behind the clouds, and yet, I sincerely believe that the sun is still shining and that we have it in our power to roll back some of the clouds that are obscuring it from view.

At the time the meeting was held at Bretton Woods to consider monetary matters (July 1944), it would have been impossible to forecast the extent to which holes and gaps would be torn in the fabric of the world's economy. Three things were apparent: First, that the United States' best customer in

world trade, Great Britain, would so far as export business is concerned, be in a desperate situation unless some means of providing needed imports from the outside could be found; second, a large measure of relief, simple charity, would be required to keep many peoples going at all; and in the third place, the devastated areas of Europe would be dependent in large measure on the United States for machinery and equipment to replace that which had been destroyed by the ravages of war. This placed on the United States a responsibility which it is up to all of us to discharge if we sincerely desire to prevent another world war.

We have recently negotiated a financial agreement with Great Britain which it is my sincere hope Congress will adopt and thus rechannel the flow of world trade which was dammed up when this nation, a faithful Ally in the war, was bereft of its dollar resources because its production was directed entirely to the prosecution of the war. Under UNRRA, we have set up a program of relief which is now going forward to the areas which need it most, and we have made provision through the medium of the Export-Import Bank to meet emergency reconstruction needs of fuel, raw materials, transportation, and communications of those countries which suffered the most in the war.

The United Nations Organization is functioning, however imperfectly. The economic and social council of that organization will soon be working hard to clear away the obstacles to world trade. The International Monetary Fund and the International Bank have just been set up at a meeting held in Savannah, Georgia, and progress should now be rapid. In other words, a constructive program to create a climate of world trade in which a rising standard of living can be nurtured is well along the way. The Export-Import Bank has

a minor, but important role, to promote, develop and preserve United States foreign trade as a part of this over-all concept.

There are many of us who might quarrel with some of the details, technical or administrative, of any of the programs mentioned, but it seems to me that we must concentrate our attention upon the broad concept and trust to administration and experience to correct the details. In short, we must take the same attitude toward attaining the objective of expanding the world trade that the American people took during the war. We won the war because of the heritage of the American people. Our leaders played a relatively minor part in this achievement. It was G.I. Joe and G.I. Jane, and the capacity to laugh at the mistakes of one's commanding officer and forget petty insults and grievances in the interest of the broader objective of getting on with the war which gave us the victory. We must continue to utilize this same basic heritage of good sportsmanship in struggling for a life of peace. The American people have risen to the occasion before and they can rise to it now. It is up to everyone of us to play the little role that is given us in such a way as to contribute to this forward march rather than give comfort and aid to the stragglers and the pessimists. The Export-Import Bank, with your help, wishes to play its part in this way.

The Bank, as you know, was remodeled in order to equip it to make reconstruction loans as part of this broad program. The management of the Bank was transferred under the Export-Import Bank Act of 1945 from an ex officio part time Board of Trustees to a full time bi-partisan Board of Directors. The Bank is now an independent agency of the United States, reporting only to the Congress and the President. The prohibition on making loans to

governments in default on their obligations to the United States and the prohibition of a similar nature on participation by private investors in the so-called Johnson Act have been eliminated. The lending power of the Bank has been increased from \$700 million to \$3.5 billion, and the President, in accord with the recommendation of the National Advisory Council set up under the Bretton Woods Agreements Act, has recommended to Congress that our lending authority be further increased by one and one-quarter billion dollars. If this increase is granted, so far as we are now able to foresee the demands on the Bank, we should be able to meet all of the emergency requests until such time as the World Bank, according to present schedule, is ready to take over.

And now I want to tell you what the Bank has done in financing exports of raw cotton, because, of course, I realize this is your chief interest in the Bank.

In October 1945, the Bank established a special cotton credit of \$100 million which is available to finance shipments of cotton to a number of European countries, including Belgium, Czechoslovakia, Denmark, Finland, France, Greece, Italy, the Netherlands, Norway, and Poland. If fully utilized, this credit would finance the export of approximately 800,000 bales of cotton. The only agreement actually signed to date under this special cotton credit is for \$5 million to finance export to Finland of about 46,000 bales of cotton. An allocation of \$25 million has been made to Italy, and the Bank expects to sign the necessary agreements in the very near future. The Netherlands has applied for an allocation of \$10 million. Other countries actively interested in using the credit are Czechoslovakia and Belgium.

In January 1946, the Bank authorized a separate special cotton credit to China in the amount of \$33 million on terms slightly different from those applying to the European cotton credit, the term of the European credits being 15 months, whereas the credit to China has a maximum maturity of 24 months. If fully utilized, this credit to China would finance the export of approximately 275,000 to 300,000 bales of cotton.

The Bank has extended long-term reconstruction loans to a number of the liberated and war-devastated countries of Europe and Asia. These countries are Belgium, Denmark, Finland, France, Greece, the Netherlands, and Norway in Europe, and China, and the Netherlands Indies in Asia. All of these credits, with the exception of those to China and Greece, can be used, if the borrowing countries so desire, to purchase raw cotton in the United States. Belgium has indicated it proposes to allocate \$4.8 million to the purchase of cotton and the Netherlands have allocated \$1.7 million to such purposes. The other countries to whom the general credits have been made available have not as yet indicated what amount of cotton will be purchased under their credits.

The Export-Import Bank has undertaken to finance the export of raw cotton in these two separate ways for several reasons. The first and obvious reason is the desire to assist United States cotton shippers to regain their traditional markets in foreign countries. This purpose becomes all the more important because of the existence of large surplus stocks of cotton in the United States. The second reason is to assist countries with cotton textile industries to put them back into production as quickly as possible, thus contribute to the restoration of their economies, and at

the same time help relieve the world-wide shortage of cotton textiles. The fact that cotton textile manufacturing facilities in the war areas on the whole escaped serious damage lent great weight to this purpose also.

The Bank had still other purposes in view in setting up its specific cotton credits. In addition to helping restore the cotton trade as such, the Bank attempted to arrange the credits in such a way as to induce a resumption of the trade through normal private commercial channels. Thus, under these special cotton transactions, the credits are extended to foreign banks to which, in turn, the mills will apply for accommodation. The private importers in foreign countries make their purchases of cotton in the United States from private American shippers and these transactions are then approved by the foreign banks and guaranteed by the foreign government concerned for financing under the credits. American shippers make their arrangements, in turn, with their own commercial banks, and both the American shippers and their banks are required to participate in the credits up to the time of the acceptance of the relevant drafts by the foreign banks. These arrangements closely resemble the commercial relationships in the cotton trade as they existed before the war. The Export-Import Bank, by providing the financing, is serving merely as an intermediary in restoring the prewar pattern.

The Bank has not attempted to make its specific cotton credits directly self-liquidating. Accordingly, the Bank has not required, and does not intend to require, that any given percentage of the cotton which it finances must be converted into textiles for export by the borrowing countries in order to produce the dollar exchange required to retire credits.

extended by the Bank. In other words, the Bank is relying, in the case both of its specific cotton credits and its general reconstruction credits which may be used for the purchase of raw cotton, on the over-all ability of borrowing countries to obtain the dollars needed to repay the Bank within the stipulated term. There are several reasons for this policy. One is that the cotton is needed in most instances by foreign countries to produce textiles to meet urgent domestic needs rather than for export. Another reason is that, even where some part of the output can be spared for export, it is often not possible to obtain payment in dollars.

The void which has been created by the termination of lend-lease has left a portion of American industry, particularly in the heavy goods category where plant capacity and skilled labor are available and orders no longer forthcoming in the previous volume, anxious to have some means of braking the reconversion period. Meeting the needs of foreign countries, helping them restore their own economies by supplying them with goods to process and cushioning our own reconversion does not create inflation in this country, but maintains sound employment and acts as a buffer against unnecessary deflation. The Bank is extremely careful in cooperation with other government agencies and, in particular the Department of Commerce, to guide foreign purchases into channels which not only avoid inflation, but prevent deflation.

The task of directing our loans into just the right channels will require a high degree of statesmanship on the part of our Government. For the first time, we have a top coordinating foreign lending committee, the

National Advisory Council on International Monetary and Financial Problems set up under the Bretton Woods Agreements Act. This Committee consists of the Secretary of the Treasury, as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Directors of the Export-Import Bank of Washington, and has the responsibility of keeping a watch over our foreign lending programs and guiding them in such a way that repayment will ultimately be possible. It is a challenging task.

Let us go back for a moment to the end of World War I and recall, if we will, President Wilson pleading for the Fourteen Points, the Third of which provided for the elimination of economic trade barriers. There are few of us today who would not concede that the early breakdown of his Third point laid the groundwork of World War II. It will require courage, stamina, intelligence, and vision to prevent these mistakes a second time. It behooves everyone of us to put his shoulder to the wheel to see to it that economic barriers are broken down; that walls become bridges; and pitfalls are smoothed into highways. If we can keep this prospect in front of us and strive for our daily bread with the knowledge that what builds one, if on a sound basis, builds all, the future can hold no terror for us.