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Address by

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THE EXPORT-IMPORT BANK AND UNITED STATES FOREIGN LOAN POLICY

I welcome this opportunity to speak to the Academy of Political Science on the subject of the role of the Export-Import Bank in the U. S. post-war foreign lending program. The official expression of the U. S. foreign loan policy is contained in the Statement of the National Advisory Council on International Monetary and Financial Problems transmitted by the President to Congress with his endorsement on March 1st of this year. The opening paragraph of that Statement summarizes the basic purpose of the policy as follows:

"The foreign-loan program of the United States, by assisting in the restoration of the productive capacities of war-devastated countries and by facilitating the sound economic development of other areas, is directed toward the creation of an international economic environment permitting a large volume of trade among all nations. This program is predicated on the view that a productive and peaceful world must be free from warring economic blocs and from barriers which obstruct the free flow of international trade and productive capital. Only by the reestablishment of high levels of production and trade the world over can the United States be assured in future years of a sustained level of exports appropriate to the maintenance of high levels of domestic production and employment."

The U. S. foreign loan program is thus a part of the whole broad effort to bring about an international climate conducive to world peace and economic well-being. As such it is part and parcel of, and should be considered in conjunction with, the parallel efforts of UNRRA, the

Bretton Woods organizations, the Anglo-American Financial Agreements, the United Nations Economic and Social Council, and the proposed International Trade Organization.

In the period preceding the active operations of the Bretton Woods organizations, the Export-Import Bank has had an important role to fill in the U. S. foreign loan program. Congress, in passing the Export-Import Bank Act of 1945, entrusted to the Bank the responsibility of making emergency reconstruction loans to the liberated and war-devastated areas during the period prior to the inauguration of the International Bank. For this purpose, the lending powers of the Export-Import Bank were increased from \$700 million to \$3.5 billion. The Bank was made a permanent independent agency of Government and its management transferred from an ex-officio part-time Board of Trustees to a full-time bi-partisan Board of Directors.

In carrying out its role under the Export-Import Bank Act of 1945, the Bank has entered into commitments for general reconstruction purposes totalling \$2,065 million. The emergency reconstruction credit program falls into three principal categories:

1. \$655 million has been extended for the purchase of goods which had originally been included in the lend-lease program. As you know, lend-lease exports during the war included not only military materials but also large amounts of foodstuffs and other goods necessary to the civilian economies of foreign countries. Upon the termination of lend-lease after V-J Day, it became essential to maintain the uninterrupted production and flow of the great volume of civilian goods already ordered

by United States procurement agencies under lend-lease appropriations and procedures. To meet this situation the U. S. Government permitted the requisitioning countries to buy such goods on credit terms established under the authority of the Lend-Lease Act. These terms, generally referred to as 3(c) terms, provided for payment over a 30-year period and interest at 2-3/8 per cent. When shipments under these arrangements have been completed, the aggregate amount of the credits extended may total roughly \$1.5 billion. The second step concerned goods for which foreign countries had filed requisitions which had been approved by the United States Government but for which the United States Government had not entered into contracts of purchase by V-J Day. To permit the consummation of these programs, it was arranged that U. S. agencies would continue to render procurement assistance for a limited period, and financing was provided by the Export-Import Bank on 3(c) credit terms, i.e., thirty years at 2-3/8 per cent. The Bank extended credits for this purpose late in 1945 to a total of \$655 million, of which \$550 million was to France, \$55 million to Belgium, and \$50 million to the Netherlands.

2. \$1,277 million has been extended for the emergency reconstruction credit needs of the following liberated and war-devastated countries: Belgium, Czechoslovakia, Denmark, Finland, France, Greece, Italy, Netherlands, Netherlands East Indies, Norway, Poland, Saudi Arabia, China and Ethiopia. The credits range in amount from \$3 million to Ethiopia to \$650 million to France, while the maturities range from two years in the case of the second general credit to the Netherlands, intended as a tide-over credit, to 25-30 years for the great majority of the credits. The long-term credits with several minor exceptions carry an effective rate of interest of 3 per cent per annum.

3. 100 million dollars has been made available to various European countries for the purchase of raw cotton and 33 million dollars for similar cotton purchases by China.

Nevertheless, the emergency reconstruction credit operations of the Bank have been complicated from the outset by the fact that, contrary to earlier hopes, private capital for reconstruction loans has not yet been forthcoming. Furthermore, the delay in the ratification of the Bretton Woods Agreement and the postponement of the beginning of operations of the International Bank meant that the Export-Import Bank has been the principal source of long-term dollar loans for a substantially longer period than originally anticipated. Except for Canada and Sweden there has been no important source of international loans outside the United States. Furthermore, even if financing had been available from other countries, the crucial fact has been that only the United States, and Canada and Sweden to a lesser extent, have been in a position to supply quickly the large quantities of goods needed by liberated and war-devastated countries.

The combination of large demands and limited resources has meant that the Export-Import Bank has been able to meet only a small part of the total needs of foreign countries for credits for reconstruction and development. As a result, it has had to limit such loans to the immediate minimum needs of the borrower. This has involved a very careful screening of all loan applications from the point of view of urgency of need of the borrower, the borrower's own resources, the possibility of obtaining

the loan from other sources, the ability of the borrower to make effective use of the funds, the capacity of the borrower to repay, and the impact of the loan on our domestic economy.

Looking back over the implementation of the U. S. foreign loan policy during the past year, from the special vantage point of the Export-Import Bank, it seems to me that two major achievements of the loan policy stand out so far.

In the first place, a mechanism for the coordination of all U. S. foreign lending has been placed in effective operation. I think it would be difficult to overestimate the importance of the contribution of the National Advisory Council, not only to the U. S. foreign lending program, but also to the permanent machinery of our Government.

The National Advisory Council was established by Congress in the Bretton Woods Agreement Act. According to this law the members of the Council are 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. As a result of Congressional decision, we now have for the first time in our history a Cabinet-level committee charged with the responsibility of coordinating all the foreign financial activities and interests of our Government. Before the establishment of the Council this area of work, responsibility for which was scattered throughout the Executive Branch of Government, was not coordinated and there was inevitable confusion and overlapping. Immediately upon its establishment the Council installed a procedure to insure the orderly consideration of all requests and proposals for foreign loans. For example, ^{as in the case of all Federal Agencies} with respect to their

particular field, before the Export-Import Bank actively considers any loan application from a foreign Government, the application is first referred to the National Advisory Council for consideration of the application from the standpoint of policy and coordination with the Government's foreign lending program. In this manner the application is given central consideration by all the interested departments. This highly technical work is done through a staff organization of which the Export-Import Bank's trained force of economists and examiners forms an essential and closely integrated part along with the economic staffs of the several government departments and agencies represented on the Council.

The assistance rendered by the National Advisory Council to the Board of Directors of the Export-Import Bank in connection with its emergency reconstruction credit program has been invaluable. In view of the extreme complexity of the foreign lending problems, and the close inter-relationship between the foreign loan applications to the Bank and to other Federal agencies and to the International Bank, the Export-Import Bank would have been faced with a well-nigh insuperable task in attempting to carry out its emergency reconstruction program expeditiously without the assistance of the National Advisory Council machinery.

To achieve this type of coordination without assuming prerogatives specifically allocated to other agencies such as the banking and business judgment which the Export-Import Bank Board must exercise, requires skillful administration. Under the able guidance of Secretaries Vinson and Snyder I can testify that this has been achieved.

Once a given application or class of applications have been "approved for consideration", as the action of the Council is now worded, the Export-Import Bank assumes full responsibility for the final decision as to whether

or not the loan should be made and on what terms and conditions. The use of the Council mechanism attunes Export-Import Bank lending to U. S. foreign policy while retaining in the Board of the Bank, as it was obvious Congress intended, the veto power over indiscriminate or unsound loans. It is clear that the members of the Board are expected to resist pressure for unsound loans from whatever source and to insure strict observance of the Export-Import Bank Act of 1945. This clear-cut independence must be maintained if the Export-Import Bank is to further its established record of intelligent and business-like lending.

The mechanism for coordinating the U. S. foreign lending program was further rounded out in recent weeks by the formation of the Aldrich Committee. President Truman appointed this committee of private industrialists and financiers under the Chairmanship of Mr. Winthrop Aldrich to bring about the fullest cooperation between the Government agencies and private industry and finance in the foreign financial field. Mr. Aldrich in accepting appointment as Chairman of the Committee summarized its purposes as follows: ".....to bring into orderly common effort public and private finance, through businessmen and bankers, in the foreign field; to foster the application of the productive capacity of the United States in the most effective manner possible to the needs of domestic consumption and foreign reconstruction; and to promote relations between American and foreign business enterprise for the purpose of developing and maintaining foreign trade, both export and import, on a high and expanding level."

Two months ago there was held in Washington the first of a series of joint meetings of the Aldrich Committee and the National Advisory Council

which will undoubtedly prove invaluable in bringing to the attention of the Government the viewpoint of industry and finance on all aspects of the foreign lending program.

The second important ---and, of course, basic--- achievement of the U. S. foreign loan policy so far is that it has provided the dollar credits required to finance the most urgent reconstruction requirements of the war devastated areas. The resources of the Export-Import Bank have been too limited to cover the total post-war reconstruction credit needs of all countries; however, the complex and laborious task of loan negotiations with fourteen countries, comprising practically every war-devastated area, has been completed within a year after V-J Day, and provision made for financing their emergency reconstruction needs.

In this way the Export-Import Bank has discharged the added responsibilities it assumed under the Export-Import Bank Act of 1945. These activities are now drawing to a close and in a short time the Bank will again concentrate on its more normal activities of aiding every day U. S. foreign trade.