

REMARKS BY THE HONORABLE WM. McCHESNEY MARTIN, JR., CHAIRMAN, EXPORT-IMPORT BANK OF WASHINGTON AT THE FORTY-SEVENTH ANNUAL CONFERENCE OF THE NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS, SEPTEMBER 23, 1948

UNITED STATES FOREIGN AID PROGRAMS, THE EXPORT-IMPORT BANK
AND UNITED STATES FOREIGN TRADE

I appreciate very much an opportunity to participate in the program of the National Association of Supervisors of State Banks in their conference here in Louisville. When I attempted to develop the subject assigned to me by your President, namely, "Our Economy and the World," it proved just a bit too large for me and, hence, with your permission, I am going to change it a little and discuss with you the relationship of United States foreign aid programs to our foreign trade, as seen from the special vantage point of the United States Export-Import Bank. This seems to me a matter of vital concern to all of us.

Now that the Economic Cooperation Administration is in full operation, we have before us renewed evidence of the crucial importance of our postwar aid, both to this country and to the world at large. When World War II began, the United States was only moderately active in world trade and its industry was geared primarily to the domestic market. But by the early part of 1945, exports under lend-lease alone were leaving this country at the staggering rate of \$16 billion per annum. At the same time that our industrial machine was thus expanding, the war was forcing the rest of the world to contract. Now, more than three years after V-J Day and despite the really remarkable degree of world recovery, especially in Western Europe, the United States productive capacity is such that the free people of the world still depend upon it to provide the additional assistance essential to the completion of their own earnest self-aid efforts.

It seems to me that the whole approach taken by the American Government after this war, supported as it has been by both major parties and the American people as a whole, contrasts most favorably with the approach taken at the end of World War I. In no area is this reflected more clearly than in the contrasting attitude towards the repayment problem after the two wars.

After World War I we insisted, without any regard to the feasibility of repayment, that our European allies repay for all United States aid, even for the shot and shell which had been expended on the field of battle. After World War II, in contrast, there has been a growing appreciation of the fact that we can only approach the whole foreign lending problem from the point of view of a realistic appraisal of the borrowing countries' capacity to repay. In the case of Europe, there is a growing recognition that we can not reasonably expect Europe to repay all, or perhaps even a major part, of the total aid required from the United States. This current estimate of the repayment prospects for United States foreign aid, it should be noted, is contrary to the original hope of this government. It was thought in 1945 that, apart from UNRRA type relief aid, the emergency reconstruction needs of the war-torn areas of Europe and Asia (exclusive of Great Britain) would be on a small enough scale so that they could be met entirely through loans, in the first instance by the Export-Import Bank on a stop-gap basis and then principally by the International Bank for Reconstruction and Development. The British needs were to be met through a separate line of credit. As you may recall, a large measure of dollar aid was rendered in 1946 and 1947 on this straight loan basis. There was the British loan of \$3-3/4 billion; Export-Import Bank reconstruction credits of over \$2 billion; and surplus property and post V-J Day lend-lease credits of nearly \$3 billion.

By the middle of 1947, however, it has become generally recognized that some new basis for financing the dollar aid requirements of Europe had to be found. The Export-Import Bank emergency reconstruction credits were coming to an end early in 1947 as available resources were exhausted and in accord with the understanding that the International Bank, which was just beginning to operate, would assume responsibility for this type of credits. The latter institution, however, found it impracticable to raise funds in the open market in the amounts required for further reconstruction needs, nor did it appear likely that the countries involved could service additional credits on a loan basis. The British line of credit, expected to last until 1951, was largely exhausted by the end of August 1947. The unavailability of private financing made it clear that, if the remaining dollar needs of Europe were to be met, they would have to be met directly by the United States Government. Accordingly, the logical and necessary bulwarks to the Export-Import Bank reconstruction credits and the British lines of credits were the interim aid grants to France, Italy and Austria in the winter of 1947 and the ECA grants and loans now being processed. The emergence of the European Recovery Program reflected the conviction of the Executive Branch and Congress that the remaining postwar dollar aid requirements might extend over a further four-year period, might amount to as much as 17 billion dollars and would have to be met largely (upwards of 80%) on a grant rather than a loan basis.

Despite the fact that further United States aid will be largely on a grant basis, the long-term dollar financing involved in the postwar recovery effort may well reach a total of over \$15 billion by 1951. This includes Export-Import Bank credits of about \$3 billion; the British loan of \$3-3/4 billion; surplus property and post V-J Day lend-lease credits of perhaps \$3 billion; a four-year European Recovery Program loan and guarantee total

of perhaps \$4 billion; and International Bank and non-guaranteed private loans and direct investments abroad of indeterminate magnitude.

Long-term dollar lending of this magnitude will mean average annual service charges of around \$1 billion throughout most of the 1950's and 1960's. This creates a major policy problem for the United States. From the standpoint of the borrowing countries, it means that they will have to develop an export surplus of approximately the same amount to meet the service charges unless this country provides them with the necessary dollars through continued private lending and direct investments abroad on a corresponding scale. From the standpoint of this country, it means that unless borrowing countries can develop such an export surplus they will either have to default on their obligations to us or drastically curtail their future imports from this country.

There are, basically, two patterns of national behavior on the part of the United States, the choice of which will largely determine whether or not and to what extent our loans will be paid back.

First - We can continue indefinitely to lend abroad and in this fashion provide dollars on a scale sufficient to avoid a net repayment problem and thus postpone the day of reckoning.

Second - We can encourage the development of an increased flow of imports into this country sufficient to enable the borrowing countries both to meet the service charges on their long-term obligations to us and also to continue to buy the products of this country on a scale essential to their and to our welfare.

I find it hard to believe that many Americans would consciously favor sacrificing our export interests, or encouraging an indefinite continuance of

foreign lending with little prospect of eventual repayment, merely to curtail an increased flow of imports into this country. The only real hope I see for a revival of true world trade, the re-establishment of an effective multi-lateral trading system, and the solution of the dollar repayment problem lies in the expansion of this country's foreign trade, both on the import and the export side, and the eventual development of a normal import surplus. Our foreign trade percentagewise may be small. It may be only 5, 7, 9 percent but it is my conviction that it represents the marginal difference between full employment and a rising standard of living, or going backwards to a period of a lower standard of living with less production of goods and substantial unemployment.

The Board of Directors of the Export-Import Bank is of the opinion that this repayment problem makes an increased volume of imports an absolute essential element of a healthy, thriving United States postwar foreign trade. The Bank has a very special interest in this matter by reason of the specific requirement in our statute that we have reasonable assurance of repayment before making a loan. It is the opinion of the Board of the Bank that, if the whole broad postwar effort to revive world trade and re-establish an effective multilateral trading system succeeds, the countries to whom we have made the two-odd billion dollars of emergency reconstruction loans should be in a position to repay these loans. It is our practical judgment that the greatest hope for a solution of the repayment problem lies in an appropriate expansion of imports into this country; indeed, in the absence of an indefinite continuation of official United States foreign aid, this is the only way in which the borrowing countries will be able to meet the service charges on their obligations and continue to buy the products of this country essential to their welfare.

The question that immediately comes to mind is: Will it be necessary to take positive steps to ensure an appropriate expansion of imports or will such an expansion take place more or less automatically during the postwar period?

There are several factors operating towards an automatic increase in imports:

First, travel expenditures abroad should increase substantially in the postwar world if for no other reason than the fact that our national income has risen so substantially above pre-war levels. Some argue that this factor alone will solve our import problem; in any event, it seems very likely that this will turn out to be the most important single source of extra dollars for foreign countries.

Secondly, imports of raw materials should be at substantially higher levels as a result of higher national income and the wartime depletion of domestic supplies of many such items. Who would have thought, for example, that copper, lead, and zinc would ever have been in short supply in the United States?

Thirdly, imports of luxury and semi-luxury items, non-competitive or only partially competitive with United States products, may rise substantially with continuing^{high} national income here and progressive recovery abroad.

As against these considerations -- although they clearly presage a larger total volume of imports in the postwar period than in the past -- we must bear in mind the fact that the same circumstances of high United States national income and demand for foreign products will set in motion as great or even greater demands in foreign countries for United States products. Experience has already demonstrated that foreign customers will buy American

goods up to the full limit of their dollar resources. It has been the relative shortage of dollars abroad and not lack of demand for American goods which has operated since the late 20's to restrict the vigor and growth of our natural export industries. Indeed, foreign countries have consistently tended since 1945 to buy United States goods beyond the limit of prudent financial management. The pressure to do this will be greater than ever until the ravages of war have been fully repaired.

Because of the above considerations, it is my conviction that we cannot afford to sit back and rely upon a fortuitous combination of circumstances to bring about an increase in imports sufficient to achieve equilibrium in our international balance sheet. I feel, instead, that we should take whatever positive measures are possible to develop an import surplus sufficient to enable foreign countries to service their dollar obligations and still continue to buy our exports in large volume. However, I am quite certain in my own mind that it is private industry and not government which must undertake the leadership in the expansion of imports. For its part, the Export-Import Bank has devoted, and will continue to devote, a great deal of attention to the import aspects of all the loan applications before it. In the case of all the Bank's general developmental and reconstruction loans, the direct connection of the proposed loan with the creation of additional foreign exchange has always been studied. The contribution of any loan to the solution at least of its own foreign exchange problem has always been a factor present in its consideration. In its appraisal of loans the Bank regards financing of the production of commodities suitable for export from the foreign country to the United States as a consideration just as important as the promotion of exports from the United States. But the contribution

that the Bank can make in the import promotion field is, of practical necessity, quite limited. Foreign trade, because of its pioneering and romantic nature, lends itself to the best in the American tradition of private enterprise. It is in this field, perhaps more than in our domestic production, that the United States opportunity lies to demonstrate to the world the true achievements of the American way of life.

I think that the principal single step that can be taken in this direction is for us promptly to reduce our tariff barriers within the framework of the Trade Agreements legislation. This reduction must be undertaken on a scientific and impartial basis and should be directed toward achieving a greater volume of imports than we now have with due regard for the rights and property of our existing enterprises. I realize the many problems involved in such action, but there will never be a more appropriate time for tariff reduction than now at the outset of the European Recovery Program. The sooner such tariff reductions are undertaken, the more effective in promoting imports they are likely to be. Moreover, the effect of tariff reduction in this period is likely to be, not to contract current domestic production but rather to minimize expansion of capacity in our less efficient industries. Our protected industries would, in my opinion, benefit from a move which caused them at this opportune time of high national income to diversify their production and direct their plans for expansion towards new lines of output.

I certainly do not mean to imply that merely lowering tariffs will correct the disequilibrium created by our production superiority. The problem is more fundamental and complicated than that. Such a step can only help a little. There is no more vital economic issue of our time, however, than this repayment problem and the development of real two-way foreign trade.

The hopes and well being of virtually all the peoples of the world depend, at least in part, on the progress we make toward understanding these facts.

The United States is the greatest economic power in the world today and the great creditor nation. I am sure all of us look forward to an early end of United States assistance on a grant basis. No one likes to give away money indefinitely, nor do worthwhile people enjoy receiving on such basis. The goal of our foreign aid programs is a self-supporting Europe by 1952, but let us not forget that our world position requires us to continue to invest heavily abroad for a long time to come and import the goods and services our capital will make possible. I hope this investment will be private and not governmental, but again let us have no misunderstanding of its vital necessity. Investment of European funds was the keystone in the arch of an expanding world trade pattern in the Nineteenth Century and investment of United States funds must now take over this role.

World War II has brought about fundamental changes in the structure of world trade. These changes were probably started before World War I, but they are now complete and far reaching. If we are to prevent the serious depression in this country on which the Russian Government is counting so heavily, we must recognize the changed character of the world economy. Foreign trade has assumed a new importance. Failure to recognize this, will, in my judgment, prove a great tragedy for our people.