

U.S. FOREIGN LENDING AND DOLLAR DIPLOMACY

As a result of the developments of recent weeks, it seems very likely that the NAC-Eximbank emergency reconstruction credit phase of the U.S. foreign lending program has been brought to an abrupt termination. It remains to be seen, however, whether the lending program will acquire the overt "dollar diplomacy" character apparently desired by the State Department.

The NAC approach. The policy approach towards foreign lending taken by the NAC has had two great advantages from the point of view of the Export-Import Bank:

1. It has appeared to the U.S. public and the world generally as an essentially non-political approach; as outlined in the NAC policy statement it is clearly an integral part of the overall U.S. international economic policy and in harmony with the Bretton Woods approach.
2. The system of rigorous balance-of-payments appraisal followed by the NAC in consideration of individual loan applications to the Eximbank is essential to the fulfillment of the Bank's statutory responsibility for "reasonable assurance of repayment" before making the loans.

The NAC approach, however, has had one basic deficiency; it has increasingly tended in actual operation to minimize the repayment problem which is of crucial importance to the Export-Import Bank. Like the Bretton Woods concept from which it stems, the U.S. international economic policy (including the foreign lending

program) depends for a full realization of its aims upon three developments: (a) the achievement and maintenance of full employment and elimination of major cyclical fluctuations in the U.S., (b) the effective reduction of trade barriers in the immediate post-war period and (c) the achievement of a stable world political atmosphere. It has been increasingly apparent since V-J day that the prospects of all three of these developments taking place are nowhere so good as had been anticipated during the period of formulation of the Bretton Woods approach. Nonetheless, throughout the lending program, the final technical estimates of the NAC Staff Committee as to the ability of the borrowing countries to repay have been based implicitly on the most optimistic assumptions regarding the revival of multilateral trade, etc. Whereas this assumption may not have affected seriously the validity of the calculations with reference to the countries of Western Europe and Latin America, it is clearly of dubious applicability to the poorer risk countries of Central and Eastern Europe.

The issue of whether or not the Export-Import Bank could continue to go along with the unmodified NAC approach has been coming to a head since the French loan. Even if the State Department had not precipitated the issue indirectly by raising the dollar diplomacy angle, it seems to me questionable whether the Export-Import Bank could have afforded to accept unchallenged technical estimates of the NAC Staff Committee as to the ability of Austria and Italy to repay based on the repayment premises incorporated in the NAC policy statement.

The dollar diplomacy approach. By suddenly intruding the dollar diplomacy concept, however, the State Department has, in my opinion, fatally undermined the prestige of the NAC approach by shifting the rationale of the foreign lending program, in the public mind, to the narrowly political one of "friendship and need".

Quite apart from the question of the basic soundness of the dollar diplomacy concept, the timing of the State Department stand has had two major immediate policy consequences for the U.S. foreign lending program.

1. It has effectively terminated the emergency reconstruction credit program of the Bank under the NAC formula.

2. It has jeopardized the prospects for repayments of certain of the Eximbank credits.

End of the Eximbank emergency credit program under the old formula. Now that the Secretary of State has openly declared that the U.S. would hereafter apply the test of "friendship and need" to its foreign lending, any subsequent government-to-government reconstruction loans by the Export-Import Bank will almost inevitably be tagged throughout the world with the "dollar diplomacy" label. This will certainly be true in the case of any credits to such poor risk countries as Austria and Italy. Moreover if the Export-Import Bank, with NAC approval, grants such credits, it seems very likely that these final actions of the Bank would give a political tinge to the whole emergency reconstruction program and create the general impression that it had been a political lending program controlled by the State Department with the Bank and NAC passive agents and puppets throughout.

Jeopardizing repayment of past Eximbank loans. The outwardly non-political slant given to the foreign lending program by the NAC approach has been of major importance to the Export-Import Bank from the repayment angle, especially in connection with the poorer risk loans. So long as the officially declared basis of the loan program remained economic with the emphasis laid on the ability of the borrowing countries to repay the loans the program was clearly formulated with the

specific statutory responsibilities of the Bank in mind. The moment, however, there was an official implication that loans are political and have been made on a "friendship and need" basis the door was left wide open for eventual repudiation on one of several grounds.

1. the borrowing country may allege that it was doing the U.S. a favor in the first instance in accepting the loan.
2. the U.S. did not seriously expect repayment since it admitted it had applied criteria of political friendship and not ability to repay.

The State Department step positively invites this action.

The decision of the State Department to come out openly ~~for~~ⁱⁿ favor of political lending was particularly unfortunate in view of the fact that long prior to the Byrnes statement the Government had actually shifted over to a selective lending policy - distinguishing between friendly and less friendly countries - without subjecting itself to any of the moral obloquy that can be attached so easily to open dollar diplomacy.

The new State Department line ~~reflects~~^{is} a victory for elements in the Department which have never understood the reasons for the NAC approach or appreciated its political advantages, and have been completely indifferent to the statutory responsibilities of the Eximbank in the foreign lending field. They don't expect the credits to poorer risk countries like Austria or Italy to be repaid and don't really care. In this they have not been alone. There has been a substantial amount of sympathy within the NAC Staff Committee and working groups for the view that the Government should wink at the repayment angle in connection with the poorer risk areas on the ground that it is more important for this Government

to help the countries back on their feet than to be repaid. As a result they have been prepared to go along with the old NAC formula although privately recognizing its inadequacies. This fact would, in my opinion, have brought the repayment issue to a head in the NAC in connection with the Austrian and Italian applications. But by suddenly injecting the dollar diplomacy issue the State Department has effectively cut the ground from under the further use the NAC formula by destroying its basic plausibility as a public defense of loans to Austria and Italy. Accordingly the whole issue of foreign financial assistance has to be reexamined and a new approach formulated in light of the recent developments.

A new approach. The remaining foreign financial assistance problem of the U.S. falls, it seems to me, into two distinct categories:

1. the pure relief problem
2. the emergency financial rehabilitation problem.

Perhaps the most serious psychological deficiency of an outright dollar diplomacy approach is the confusion it creates in the public mind between these two distinct problems. Dollar diplomacy is really applicable only to the emergency financial rehabilitation problem. The pure relief problem clearly has to be tackled on a grant-in-aid basis, free as far as possible from any connotations of dollar diplomacy. The State Department committed a major blunder in unintentionally laying this country open to the accusation of playing politics with hunger and I have no doubt that full advantage will be taken of the blunder during the coming years.

Insofar as the emergency financial rehabilitation problem is concerned, the United States had about exhausted the Eximbank funds available for the purpose at

the time the State Department introduced the "friendship and need" formula. The problems of Italy, Austria and Greece would have required comprehensive action by the State Department to obtain an overall grant-in-aid from Congress in any event.

The emergency financial rehabilitation needs of these countries could be dealt with under an overall aid program in one of several ways:

1. Their irreducible minimum needs could be blanketed into the overall "relief" grant-in-aid on the theory (a) that it would save the U.S. money in the long run to get these (politically vital) countries back on their feet promptly and thus stop the relief drain and (b) that the prospects of repayment of any loans are unreasonably small.

2. Their minimum emergency financial rehabilitation needs could be split into two sub-categories: (a) agricultural machinery, etc. tied directly into the domestic food production and (b) raw materials and machine tools, etc. required to get industry operating at minimum safe level and the export trade revived. Sub-category (a) items would be carried (as in the case of UNRRA) under the grant-in-aid program, whereas financing of sub-category (b) would have to be met on some loan basis.

Because of the inadequate resources of the Eximbank and the repayment uncertainties, this Government would have had to use one of the above alternatives to deal with the Italian, Austrian and Greek situations adequately even if the NAC formula had remained unimpaired. About all that the "friendship and need" formula has done is to make it highly impolitic for the Export-Import Bank to deal with sub-category (b) financing on a government-to-government basis.

In the case of both Austria and Italy, I believe that economically acceptable

schemes for extending limited financial assistance by the Export-Import Bank on a non-government-to-government basis can be devised.

In the case of Austria, a program of raw material and working capital advances to specific Austrian industries analogous to the PFC-USCC program for Germany would appear entirely feasible. The Export-Import Bank (acting through the USCC) could finance the purchase and shipments of raw materials and equipment needed by specific Austrian companies and requested by the US Zone Commander Austria on behalf of the Austrian Government. The Eximbank credits would be repaid out of the proceeds of exports to the United States by the Austrian companies in question.

In the case of Italy, I believe a carefully-tied project loan/exporter credit program analogous to the Chinese and Turkish programs would be appropriate. The Italian economic position is basically much sounder than the Austrian position and would warrant a less stringent type of loan program.

I believe that Export-Import Bank credits of the above type, carefully devised, would probably fall within the "reasonable assurance of repayment" standards hitherto applied by the Bank and NAC, and also be sufficiently differentiated from the previous long-term government-to-government credits as greatly to lessen the likelihood of the dollar diplomacy label being placed ex post facto on the entire emergency reconstruction credit program.