

POST-WAR
FINANCIAL ASSISTANCE
TO FOREIGN NATIONS

*

By BENJAMIN HAGGOTT BECKHART
Director of Research, The Chase National Bank
Professor of Banking, Columbia University

Although this pamphlet is published and distributed by the Economists' National Committee on Monetary Policy, only the author is responsible for the opinions expressed. No individual in this Committee may speak for any other member.

One of the purposes of the Committee is to make available to the public articles and pamphlets written by its members, when such material seems genuinely useful.

A list of statements issued by the Committee and of other literature distributed by it may be obtained by writing the office of the Committee, 70 Fifth Avenue, New York City.

Post-War Financial Assistance to Foreign Nations

Statement of

BENJAMIN HAGGOTT BECKHART
Director of Research, The Chase National Bank
Professor of Banking, Columbia University

On H. J. Res. 226

Presented to the Committee on Foreign Affairs
of the House of Representatives
Thursday, April 27, 1944



PUBLISHED AND DISTRIBUTED BY THE
ECONOMISTS' NATIONAL COMMITTEE
ON MONETARY POLICY
EDUCATIONAL BUILDING • 70 FIFTH AVE. • NEW YORK 11, N. Y.

SANDERS PRINTING COMPANY • NEW YORK

POST-WAR FINANCIAL ASSISTANCE TO FOREIGN NATIONS

MR. CHAIRMAN: In offering testimony on H. J. Res. 226 introduced by the Honorable Charles S. Dewey, I should make clear that whatever opinions I express represent my personal point of view and not that of any institution or organization with which I am associated.

Congressman Dewey's proposals can best be viewed against the background of the entire role of the United States in international financial and economic relationships in the post-war period. In other words they constitute one of a series of important actions which this Government might undertake in the extension of financial assistance to foreign nations.

Accordingly, I should like to set forth a few general principles which might be given consideration in the development of our international financial and trade policies:

1. IN EXTENDING AID TO FOREIGN NATIONS we should distinguish very carefully between gifts and loans; between the financial aid which we extend to relieve human suffering and distress and for which we do not expect repayment, and

the financial aid which we extend for economically productive purposes and for which we expect repayment. Nations occupied by the Axis powers will stand in desperate need of food and clothing. These needs we should meet to the utmost of our ability and without thought of repayment.

2. POST-WAR LOANS, as opposed to relief grants, should be extended for definite projects of economic merit, or in the words of Congressman Dewey's resolution, for "sound economic objectives." The terms of each credit extension should be "tailored" to fit particular borrowing needs. Careful consideration should be given to the credit-worthiness of the borrowing country.
3. PREFERENCE SHOULD BE GIVEN to loans, the proceeds of which will be so utilized as to increase the export ability of the borrowing nation.

If borrowing needs associated with purely domestic requirements are financed through external loans, a heavy burden will be placed upon a nation's balance of payments without at the same time enhancing its ability to export goods and thus to repay its external debt.

4. IN THE EXTENSION OF FINANCIAL AID, the funds loaned should be similar in character to the funds required.

The mistake committed in the decade of the 'Twenties of using short-term funds to finance long-term needs should not be repeated. Short-term funds should be used solely to finance short-term requirements and long-term credit needs should be met from investment funds.

5. THE UNITED STATES SHOULD STAND READY to grant financial aid only if it is confident that borrowing nations at the earliest practicable moment will remove existing controls over import and export trade and foreign exchange transactions,

and that they will not use such controls as instruments of national policy.

6. CREDITS SHOULD NOT BE EXTENDED unless the United States is willing to absorb the amount of imports necessary to enable foreign debtors to meet interest and amortization charges on their indebtedness.

In many nations, and more particularly in those which must resort to external borrowings, there will be an intense demand for dollars, a problem which can be eased if, in accordance with a recent recommendation of the United States Chamber of Commerce, this country pursues "a constructive, liberal and realistic tariff policy designed to prevent world-wide erection of excessive tariff walls such as followed the last war."

Such then are a few of the general principles to which attention might be given when post-war lending policies are being formulated. Not all foreign nations will need to seek loans. Many possess dollar assets and gold in sufficient amount to stabilize their currencies and to purchase in this country the commodities, machinery and capital goods which they will require. Others will need to borrow for purposes of currency stabilization, economic rehabilitation and reconstruction. In certain instances, the loans that will be required can be secured from private sources; in other instances, they will have to be secured from the United States Government or from a government agency.

POST-WAR FINANCIAL PROBLEMS cannot be separated from those of the war itself. In fact, they represent an outgrowth of the war situation. Just as we are extending financial aid during the course of the war, so must we be prepared to continue this aid in the post-war period. Our responsibilities in this connection are implied in Congressman Dewey's resolution. In view, however,

of our own internal monetary and fiscal situation, our ability to extend credits is not an unlimited one. Similarly, the ability of borrowing nations to repay is not unlimited. In consequence, credits should be extended largely for purposes which will increase the export ability of the borrowing country.

International capital movements on private account will take place and will increase in the post-war period if the political, financial and economic environment is a favorable one. The creation of a favorable environment presupposes that the United States will reduce trade barriers, that countries overrun by the Axis powers will achieve political stability, that the problem of post-war inflation will be handled successfully, and that controls over foreign trade and over the foreign exchanges will be removed at the earliest possible moment by those nations in which the system of private capitalism prevails.

Moreover the creation of an environment favorable to private international finance requires that a constructive solution be found to questions concerning reparations and inter-allied debts. The United Nations should neither attempt to collect huge reparations nor insist upon the repayment of inter-governmental obligations resulting from the war effort. Though the enemy powers should be required to return looted goods and relinquish seized territory, reparation payments, except in limited amount, should not be demanded. The United States must take care to avoid being maneuvered into a position, where, as a result of loans extended to the defeated nations, it is in effect covering the reparation payments of those nations. A prompt settlement should be made of the obligations due to this country under the Lend-Lease Agreements. The terms and conditions of the settlement should, in the words of Article VII of the Master Agreement between the United States and the United Kingdom, *"be such as not to burden commerce between the two countries, but to promote mutually advan-*

tageous economic relations between them and the betterment of world-wide economic relations." A further necessary action in the clearing up of political obligations would be the repeal of the Johnson Act of 1934.

AS THE FIRST STEP towards an international economic and political environment favorable to private enterprise, this country should stand ready, within the framework of the principles set forth above, to lend financial assistance abroad. Whether loans are extended for a short or a long period, whether they are extended privately, or by the Government, or by one of its agencies will depend upon the credit standing of the borrowing nation.

In general, post-war credits will be extended for the following four major purposes:

1. Trade finance; 2. Currency stabilization; 3. Economic rehabilitation; and 4. Economic development. In each instance the funds required will differ as to length of life and as to the private or public character of the institution meeting the need.

Trade credits of a short-term self-liquidating character can and should be supplied by commercial banks. American commercial banks have close business relationships with American importers and exporters and, through their correspondents and branches, are in close touch with foreign business. American commercial banks can render a very important service in the financing of international trade, and every effort should be directed towards the building up of a discount market in New York to perform services of the sort rendered so ably and effectively by the London discount market prior to the first World War.

In order to prevent an over-extension of such credits in the aggregate to any one nation, the Federal Reserve banks might maintain statistical records of all foreign credits extended by com-

mercial banks, classified by countries. Aggregate data could be reported periodically to the lending banks so that they would be in a position to judge whether any nation was incurring too large an indebtedness on short-term account.

THE SECOND TYPE OF DEMAND for funds arises in connection with currency stabilization. Although credits for this purpose can render an important service, it must be emphasized that currency stabilization is essentially an internal problem. It involves the balancing of governmental budgets, the severance of the commercial banking system from deficit financing, the refunding of the floating debt, the unpegging of interest rates, the re-establishment of free competitive markets, the restoration of a true balance in the cost-price structure, and the re-establishment of profit and loss as a guide to production and as a measure of efficiency.

The United States itself will have an important responsibility in providing a dollar which will serve as a firm basis for the currency systems of other countries. To accomplish this, the dollar must be freed of all foreign exchange controls, gold coin redemption must be reintroduced, a balanced federal budget must be achieved, and commercial bank credit must not be used, as was the case in the decade of the 'Twenties, to meet the demand for long-term investment funds.

The United States can make a further contribution to world economic stabilization to the extent that it is able to prevent deep business depressions and exaggerated booms and the attendant erratic exports of capital.

Although the problem of currency stabilization is fundamentally an internal one and one which must be solved by the adoption of appropriate internal measures, stabilization credits in certain instances can prove helpful. Such credits are of two types: short-

term credits required for seasonal or temporary emergency needs, and long-term credits required for the purpose of providing gold and foreign exchange reserves.

THE FIRST TYPE OF STABILIZATION CREDIT can best be granted by an international central bank, *i.e.*, by an institution similar to the Bank for International Settlements, or by the Bank for International Settlements itself operating under a revised charter. Such an institution could serve a most important function not only by granting short-term stabilization credits but also by serving as a meeting place for central bankers and as an agency for research on world economic problems. The Bank for International Settlements, which was American in conception, has rendered important services in connection with these functions and its experience will be of great value in solving impending stabilization problems.

May I suggest that the Board of Governors of the Federal Reserve System give immediate attention to the problem of enlisting the cooperation of the officials of various other central banks in the establishment of an institution similar to the Bank for International Settlements, or in the revision of the charter of the present institution to make it an effective instrument in currency stabilization.

THE SECOND TYPE OF STABILIZATION CREDIT is that extended for a long period of time to provide the borrowing nation with gold or exchange reserves. Such a credit is exemplified in the Dawes loan of 800 million gold marks or about 190 million dollars, granted to Germany in 1924 to provide gold reserves for the new central bank, to contribute towards the establishment of a sound currency, and to prevent a complete suspension of payments

to creditor nations during the period of economic rehabilitation. The bonds, offered in the markets of eight foreign countries, were 25-year obligations.

Although the Dawes loan was relatively small in amount, the proceeds were sufficiently large, along with the internal measures instituted by Germany, to provide a stable currency. This experience would seem to indicate that long-term stabilization credits following this war will not have to be large to achieve their purpose.

Experience with stabilization credits after this war will probably be similar to that after the last war. Not all nations will need to borrow to secure currency reserves. Many will possess a sufficient supply of gold and dollar exchange. Nations which stand in need of long-term stabilization credits will doubtless wish to obtain them in this country. Gold will probably not be available elsewhere, and the dollar may be the only important currency free of foreign exchange controls. If private funds are not available for such loans, the United States Government should doubtless assume the responsibility of providing the requisite funds.¹ By doing so, this country can stimulate international trade of a multilateral character and promote world recovery.

In order to facilitate the granting of long-term stabilization credits by our Government in the difficult period of transition from a war to a peace economy, I propose that a Foreign Credit Administration be established, operating under the direction of a Board of Governors chosen in the manner set forth by Congressman Dewey in H. J. Res. 226. The powers and duties assigned to this Board, however, would be somewhat broader than those delegated in Congressman Dewey's proposal. Among other duties, this body would have the responsibility of receiving and passing upon applications for long-term stabilization loans to be granted by our Gov-

¹ Within the framework of principles set forth at the outset of this statement.

ernment, and, if favorable action were taken, of recommending to Congress that the necessary appropriation bills be introduced.

The first measure in any program of world currency stabilization is the stabilization of the British pound in terms of the American dollar. Once this is accomplished, an important initial step will have been taken towards the stabilization of all currencies and the reconstruction of world trade. If the Foreign Credit Administration were established in the near future, it could give immediate consideration to the problems involved in the stabilization of the British pound and to the role which this country should play in effecting such stabilization.

THE THIRD TYPE OF CREDIT DEMAND has to do with the loans that will be required for purposes of economic rehabilitation, *i.e.*, to assist nations in building up inventories of raw materials and in repairing docks, factories, public utilities, railroads, etc. Such credits are closely related to relief activities inasmuch as they enable nations to resume their normal economic life and to become self-supporting. It is to this problem that Congressman Dewey has in particular addressed his proposal.

Not all nations will need to borrow abroad for such purposes. A number will possess gold or foreign assets. Some nations will be assisted by immigrant remittances and by the donations of philanthropic organizations. In certain instances, as the enemy withdraws from the occupied countries, the work of rehabilitation will be undertaken by the American and British armies in order to maintain the services of supply.

To the extent, however, that foreign nations must rely on the assistance of the United States Government to finance working capital needs, and the reconstruction of plant and equipment, I

would suggest that the granting of such credits constitute another of the functions of the Foreign Credit Administration, and that such credits, in accordance with Congressman Dewey's suggestion, be extended on a joint-account basis. Inasmuch as the loans will tend to become long-term in character, the amount of the revolving fund will probably have to be somewhat larger than that proposed in H. J. Res. 226. Moreover, foreign nations cooperating in the joint-account arrangements should be permitted to participate with this country in supervising the use of the credits.

THE FOURTH AND FINAL TYPE of credit need will arise from the desire of nations to further their economic development, *i.e.*, to expand capital equipment. The greater part of such expansion must be financed from internal sources, for much of it is of such a character that it will not increase the export balance and, in consequence, will not facilitate the repayment of funds borrowed abroad.

In certain instances, nations, by using their own gold holdings and foreign exchange assets, will be able to procure in the United States or elsewhere the capital equipment they desire. In other cases, capital expansion can be brought about by direct investments on the part of American individuals and corporations, a very desirable type of capital import.

To the extent that the assistance of the American Government is required and justified in financing capital development in other nations, I would suggest that the Export-Import Bank be used for this purpose, operating under the supervision of the Foreign Credit Administration. The experience which it has obtained in the granting of such credits will prove valuable in meeting somewhat similar needs in the post-war period.

BY WAY OF RECAPITULATION,—the funds required by various foreign countries in the post-war period (aside from relief grants) will be those needed to finance international trade, currency stabilization, economic rehabilitation, and economic development. A certain portion of the external credits required can be supplied privately, another portion may need to be supplied by governments or government agencies. In order to simplify and expedite the extension of the credits which may have to be granted by the American Government, I have suggested that a Foreign Credit Administration be established. This would be charged with the threefold responsibility of recommending to Congress appropriate measures in order to provide long-term stabilization credit of participating with other nations in financing economic rehabilitation, and of directing the work of the Export-Import Bank.

This suggestion was based upon and grew out of the proposal made by Congressman Dewey. The Foreign Credit Administration differs from the Central Reconstruction Fund, proposed in H. J. Res. 226, in that it would possess somewhat broader powers and responsibilities, and its functions would be departmentalized in accordance with the type of credit granted. Its Board of Directors would be selected in accordance with the procedure set forth by Congressman Dewey.

In the post-war period, the United States will have a unique opportunity and a real responsibility in offering leadership in the formulation of constructive international financial and commercial policies. We must be prepared to accept this challenge and to develop policies and follow the course of action most conducive to the economic recovery of all nations and to the maintenance of world peace. In directing attention to the urgency of these questions, Congressman Dewey has rendered a signal service.

PURPOSES OF THE
ECONOMISTS' NATIONAL COMMITTEE
ON MONETARY POLICY

1. To enlighten the public as to the economics of the monetary issues before the country.
2. To educate the public as to the desirability of an early return to a gold standard.
3. To combat unsound monetary programs such as those of the inflationists, devaluationists, and commodity dollar advocates.
4. To issue public statements on current monetary issues as circumstances seem to warrant.
5. To place speakers at the disposal of the public.
6. To distribute its own and other literature.
7. To suggest from among its members experts for those who wish such aid.