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THE ROLE OF THE EXPORT-IMPORT BANK IN WAR FINANCE

11 December 1951

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Mr. Herbert E. Gaston, Chairman of the Board of the Export-Import Bank, was born in Halsey, Oregon, 20 August 1881. He attended the University of Washington 1903-1904 and the University of Chicago 1904-1906. Prior to his government service he had extensive newspaper experience and from 1922-1931 served in an editorial capacity with "The World" in New York. He has been adviser to the Secretary of the Treasury in conferences involving international financial problems as well as domestic financial problems. He was the Treasury representative on the Interdepartmental Committee on Cooperation with American Republics, secretary of the Board of War Communications, and U. S. representative at the first conference of Finance Ministers of American Republics at Guatemala City in 1939. In 1945 he was appointed to the Board of Directors of the Export-Import Bank where he served as vice-chairman, and in 1949 was designated by President Truman as Chairman of the Board.

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THE ROLE OF THE EXPORT-IMPORT BANK IN WAR FINANCE

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COLONEL HARDENBERGH: The role of the Export-Import Bank in war finance is an extremely important one in terms of financial aid and facilities, support in promoting foreign trade and productive developments wherever the economic interests of the United States are involved.

We are indeed fortunate to have as our speaker this morning the Chairman of the Board of Directors of that bank. Mr. Herbert E. Gaston has been a member of the Board of Directors of the Export-Import Bank since 1945 and has served as Chairman of the Board since 1949. Prior to becoming associated with the bank, Mr. Gaston spent more than a decade in various high-level positions in the field of government finance, including that of Assistant Secretary of the Treasury. Mr. Gaston, it is a real personal pleasure to welcome you to this platform.

MR. GASTON: In discussing the work of the Export-Import Bank, it is a great pleasure to appear before so distinguished a group, because of the interest I know you have in getting a broad view of government progress. The Export-Import Bank, I suppose, might be considered to have been from the beginning a strategic concept, in a broad sense. It was created originally in 1934, primarily to stimulate the export of American products. Gradually its role underwent a transformation and, in the First World War period beginning in anticipation of what later happened in view of the economic focus on the struggle in Europe, there began to be loans made definitely for developmental purposes in foreign countries, notably in Latin America. The loans were made with the definite purpose of advancing not simply the trade interests but the general interests of the United States.

The bank has developed from that point until, in 1945, it underwent a definite change to meet a very definite emergency. In 1944, as you will recall, there was held in Breton Woods, New Hampshire, the Breton Woods Conference. Later there was passed by Congress the Breton Woods Act for the formation of international institutions which, it was thought, would play an extremely important role in the field of reconstruction and development. But it became obvious early in 1945 that those institutions could not get under way and, under the conditions then existing, could not operate in time to achieve the objectives that were set forth for them.

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That object was the early stimulation of the recovery of the war-wrecked economies.

Thereafter, the Congress, in 1945, passed the Export-Import Bank Act of 1945 which increased the revolving lending authority of the Export-Import Bank from 700 million dollars to 3.5 billions; during 1945 and 1946 the bank disbursed, definitely for the purpose of stimulating recovery in the war-wrecked countries, an amount very close to 2 billion dollars.

That itself, as you will recall, was found to be insufficient to meet the problem that it had been anticipated might be met by simpler and more modest devices. It was in 1948, after the International Bank created by the Breton Woods Conference got into operation and began making its first loans, that the Marshall Plan was conceived and the Economic Cooperation Administration was created for the purpose of more intensive study and more extensive aid to all the economies of the war-damaged countries. Later that was extended to other countries of the world in the interest of trying to bring about a more nearly normal world economic condition.

The Export-Import Bank has continued under the authority granted in 1945 to make loans. It has outstanding today commitments, plus loans disbursed, of slightly over 3 billion dollars. It has actual funds disbursed of about 2 billion dollars. The difference between commitments and loans outstanding as we carry them on our books is one that will be quite obvious to you. In nearly all cases it represents the time lag between the decision to commit funds for a certain purpose and the actual delivery of the materials to accomplish that purpose.

In the main our loans have been for the purchase of American goods, of goods made in the United States. We operate under a law which states our purpose to be to facilitate and to aid in financing the export and import trade of the United States and its trade with foreign countries. There is also provision in our law that these loans shall generally be for specific purposes and that so far as is consistent with the main objectives of the Export-Import Bank Act, which are to forward the foreign trade of the United States, they shall carry reasonable assurance of repayment. We have taken that requirement with respect to reasonable assurance of repayment quite seriously; we have interpreted it rather literally, generally speaking. We must be able to see some reasonable assurance of repayment of a loan before we will commit it. That means that it is our aim not to make bad loans. Of course, no one can be infallible; no one can be perfect. It is a fact, however, that out of some 5 billion dollars of funds committed by the Export-Import Bank since it began its business, we have suffered actual losses of something over 240 thousand--not millions--of dollars, which is a rather small fraction of a percent, if you care to figure it out. We think the record is pretty good.

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We can't prophesy as to future breakage, but we can say that up to this moment we think the record of the bank throughout its history of 17 years will stand comparison with that of any commercial institution. It is rather the more remarkable in view of the fact that we are lending funds in instances to countries and for purposes for which commercial banks and commercial lending institutions in the United States have been in general unwilling to make loans. As a matter of fact, there's a provision in our law that we shall not compete with private capital; so that, if we find after investigation this is the kind of a loan that can be made in the private capital market, through investment bankers, insurance funds, or ordinary banking channels, we don't make it.

We sometimes find this--that sellers of United States merchandise may obtain from their bankers agreements to go along with the Export-Import Bank on a basis of perhaps 75-25, or sometimes as high as 50-50, or even higher than that; they will regard the loan as a reasonable one, one that they can justify to their directors, whereas they themselves would not undertake the credit. It may seem to you to be an extraordinary thing that this is so, but there are some fairly logical reasons for it.

When we make a commitment, we do not always have the express guaranty of the country concerned. We sometimes do have those express guaranties, but in all cases we make the loan or extend the credit with the agreement of the country concerned, with the understanding of the country concerned, in compliance with the wishes of the government of the country concerned, and with the assurance that it will see that reimbursement to us is exchanged into dollars. Thus the transfer risk is lessened or completely absent under our agreements; and these are among the solid advantages of going along with us which a private lending institution would not find on its own account. And there is another substantial advantage, the advantage of being a partner with an agency of the United States, where the creditors feel themselves in a somewhat more comfortable situation than they would feel otherwise.

We continue to make loans. It is rather the strategic aspects of our loans that I think are of considerable interest. To study it from the beginning, it might be considered that all our loans have a certain strategic value. I suppose the Export-Import Bank would never have been created to serve the interest of the United States if, broadly speaking, the strategic interests weren't considered. I suppose the matter of establishing trade relations, the matter of establishing broader contacts with foreign countries, has something to do with the question of our place in the world from the standpoint of any sort of emergency.

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So from that rather broad point of view you might say everything we have done has been from a strategic point of view. However, many of our loans have more directly strategic importance. One of the earliest of the loans of the bank was a substantial loan in Brazil for a mining and railroad enterprise, to get the ore from the rich Itabira mines in northern Minas Geraes in Brazil out to the sea at Victoria, which is in the State of Expirito Santo. We are still pursuing that project and at this very moment we are examining an application for furnishing some improvement of the railroad line and some improvement of the mining machinery so as to increase the amount of that very rich iron ore at Itabira. That mine yields a hard rock hematite which the steel experts call of open-hearth quality. It is a very superior ore; it is extremely rich in iron. We rebuilt the railroad and we are continuing work on it and, as I say, we have now before us an application for some further improvements on that road.

We have built highways in a very considerable number of countries. Our earliest work was in Latin America, but our later loans have been more widely distributed. We now have live loans outstanding in, as I counted them yesterday, 43 countries of the world. There are loans on the American continents in North, South, and Central America, from Canada to Tierra Fuego; in Europe; in the Middle East; in the Far East; Asia; in Indonesia; and in Africa. By the way, one of our projects in Africa was also an iron ore project, the Bomi Hills project, for a quite rich iron ore on which the Republic Steel Company is to an extent our partner. That is, it put in equity money to the amount, I think, of 3 million dollars, as against our 4 million on loan.

We have worked in Saudi Arabia, where we are helping so far as we can to direct the energies and the resources of the Ibn Saud Government into useful improvements that will lift the level of living of the population. It had been our hope that we might be able to do something in Iran; but, as you know, events have interfered. That commitment has not yet matured, for a number of reasons, one of which is the present rather depleted condition of the Iran treasury, from causes which all of you know.

We have a loan commitment of 100 million dollars in Indonesia which was made just at the time the new independent State of Indonesia was set up in place of the Netherlands East Indies colonial government. We are under agreement to do something in the Philippines. As you will recall, the Bell Mission went out there for a study of the Philippine economy and came back with a recommendation, among other things, after certain reforms had been undertaken by the Philippines, for some 250 million dollars in the form of either loan or grant, or loans and grants combined to be put into the Philippines, which would call for an average of 50 million dollars a year over a period of five years.

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We are considering now the first of a series of projects which we expect to consider, this one being an extremely necessary improvement--the erection of a power plant, the first of a series of power plants, on the Agano River north of Manila, to augment the Manila power supply and enable it eventually to furnish electric current at reasonable rates for industrial purposes in the City of Manila.

There are other projects, some of which may have more direct strategic significance. We have been discussing in a general way, not as specific applications, some matters which we hope may result in obtaining materials from the Philippines for Japan, which will do a double stroke, by helping the Japanese economy to get on its feet, a thing to which the United States is pretty well committed.

Quite recently we have been making a number of loans for the purchase of raw cotton in the United States, and we are now about to close an application for 40 million dollars for Japan for this purpose. It would be the first actual loan to Japan since the war. It is quite within the bounds of reason, and in fact highly probable, that we will consider other projects in Japan in so far as they would seem to help achieve the objective of making a self-sustaining economy there, which, as you know, is going to be an extremely difficult job under the circumstances. Japan, through the Communist rape of China, has lost both its most important source of raw materials and its most important market. The Japanese are especially in need of iron and of coal for their steel industry, and they are in need of a number of other raw materials. If we can reasonably help them, we shall hope to do it.

We are doing some work in Afghanistan. We have a rather ambitious and, we think, well planned project out there for the reclamation of considerable areas of land. As you know, those countries of the Middle East--in that grouping I would include Iraq and Iran, as well as Afghanistan, perhaps the cradle of the human race--are among the countries where there is the greatest opportunity, I should say, for the development of undeveloped resources to increase the living standards of the people. There will have to be along with that some social reforms that will give the people the chance to enjoy the benefits of that recovery.

The strategic value of all this, I should say would be fairly obvious. That is, if we can attach those countries to American civilization and to the United States, we make a gain not merely for the United States in any struggle with any other power but a gain for the cause of peace and order in the world, and for the cause of feeding and sustaining on a reasonable level of subsistence, a population which throughout the world is increasing by leaps and bounds--but that's another story.

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We have that problem, as you know, in various parts of the world. In Indonesia our work is quite varied; in general it goes toward making the Indonesian economy one that can stand on its own feet and to do as we are attempting to do in other countries of the world--improve the general conditions of living of the people in the country.

We have, as perhaps you have read, projects in the new State of Isreal, amounting to 135 million dollars. The first segment of that was a 100-million dollar loan, and the second was a 35-million dollar loan, which was definitely for agricultural improvement. They are going ahead there. I think, in the expenditure of those funds, the problem in Israel is somewhat different from the problem of many countries in which we deal. It is not a problem of persuading the people to do the things as they ought to be done, to manage them prudently, to aim at the projects which have the greatest economic value. They are doing that. The problem there is a rather different one that is quite obvious. How can you possibly sustain so large a population as this is, and which is constantly increasing, with such limited natural resources--how can you make the best of those small resources and how can you build up an external trade by which those people can live?

Of course that problem exists in every part of the world. It exists in Europe and in Great Britain. There is going to be--there must be--a great reformation of trade and industry in many countries of the world; there are changes in trade and industry going on in all the lesser-developed countries. The old lines of trade do not exist and probably could not be revived as they were before. You have separate and distinct problems for every small country. The problem is one of how to maintain in each of these countries the high standard of living which human beings today throughout the world demand with the resources that you have at hand and with the possibilities of trade that you have before you.

I think I have fairly well covered the general picture of the work of the Export-Import Bank. I would be very glad to elaborate in response to any questions.

COLONEL HARDENBERGH: Gentlemen, we are now ready for your questions. The first questions, please.

QUESTION: Mr. Gaston, I was very much interested in the question which you asked right at the end of your address. That was the fact that with increased populations and the old trade routes disrupted, and with the resources at hand, "How can the people sustain the high standard of living they previously had." Would you care to comment on that, with particular reference to Great Britain, which seems to typify the situation which you think is the problem in the world today?

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MR. GASTON: I should like to say that I should not have made too pointed a reference to Great Britain. Actually we have no business with Great Britain, or loan to Great Britain, save a Treasury loan. But the British do have a problem which is typical of the problems throughout the world. It is not simply a case of gaining back the old standards of living. The old standards of living were not good enough, according to modern demands, which is true of most of the countries of the world. There's a terrific unrest in the world, where we see some people living in luxury and some people living in rags. It is the old unrest which perhaps has gained more strength in the world today than it has had any time in the world's history. What are we going to do about it? In the first place, there exists modern techniques for improving production, but there is something more which has to be done, because old lines of trade have been disrupted. I think that problem is particularly an acute one.

You have to figure out what the British can live on and maintain a higher standard of living. How shall they improve their products? How shall they advertise their products? Where shall they sell their products? To what should they devote their main energies? How shall they get their coal out of the ground more cheaply and efficiently? Those are all problems which I am sure the British will attack. They are problems which exist around the world; I don't think any of us are attacking them vigorously enough. I can't give you the answers, except to say there must be greater productivity, more logical lines of exchange, more logical mechanisms of monetary management so that exchanges can take place on a logical basis and efficiently.

QUESTION: Mr. Gaston, would you care to comment on the loan impact of the Export-Import Bank in regard to the inflationary spiral that we are faced with as of the moment?

MR. GASTON: That's really a question that Dr. Rowntree here ought to answer. There's a certain impact of demand for United States goods created by the Export-Import Bank loans. It is not great in relation to the whole volume of production within, and the whole volume of exports of, the United States. I would say that the matter is a problem for a study of values. How badly do people need these things? When do they need them? Do they need them now? What values attach to our giving goods to them, selling goods to them? What value is attached to our selling to them now? It is a problem of evaluation in the particular case.

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QUESTION: Mr. Gaston, would you please select one of the more recent loans of the Export-Import Bank and tell us the principal administrative steps that were taken before that loan was granted? Also, I should like to know, sir, if the loan is said to have strategic importance, who assesses this strategic value?

MR. GASTON: I will start from the bottom and work up. We in the Export-Import Bank, the Board of Directors, in an attempt to assess the value to the United States of any particular loan, use such guidance as we may get from the State Department and from another organization which I did not mention in my earlier talk, concerning which I had occasion to refer during the intermission. There are five members of the Board of Directors of the Export-Import Bank. It is a bi-partisan Board of Directors, or as the law reads: "No more than three members shall be of one political party." That means there are two Republicans and two Democrats appointed by the President on the Board, the person of the existing Administration makes the fifth member.

We rely on the representative of the Secretary of State, Willard Thorp, who is an Assistant Secretary, to give us some guidance on general political policy. When it comes to further evaluation of the loan, in the light of United States interest, we hope to get it, and the place where we are by law assigned to get it is the National Advisory Council on Financial and Monetary Problems. Of that organization the Secretary of the Treasury is Chairman; the other members are the Secretary of State; the Chairman of the Board of Governors of the Federal Reserve System; ECA Administrator, who is to be replaced by the Mutual Security Administrator; the Secretary of Commerce; and myself, that is to say, the Chairman of the Board of the Export-Import Bank.

The function of the National Advisory Council is to pass on loan projects and to decide, as the law expresses it, to coordinate the financial policy of the United States. Of course, "coordinate" means coordinate in the light of all the interests of the United States. All phases of interest to the United States are taken into consideration in those meetings. It is quite true that no member of the Defense Department is regularly present at the meetings. On occasion one is; but we get from that organization permission to consider loans. As a matter of practice generally we have already worked the loan project over pretty thoroughly and decided what we want to do; we have presented the matter to the National Advisory Council's staff before we ask permission to consider it.

QUESTION: Are these loans made in every case to foreign governments, or are they made to individuals and corporations? Or are they made jointly to both foreign governments and individuals or corporations? If you make them to corporations, does the foreign government act as security on that loan?

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MR. GASTON: We make loans to foreign governments for both public improvements and sometimes such enterprises as steel mills or fertilizer plants, or other industrial undertakings. Those loans are fully guaranteed by the foreign government. Usually they are made to an agency of that government. They have in many of the Latin-American countries organizations called "fomento" corporations or departments. In the case of Mexico, the organization is Nacional Financiera. It is sort of an RFC for Mexico. It borrows from us. That is one class of loans, governmental loans. Another class of loans is strictly private industrial loans. We make many of those, which are not guaranteed by the foreign government. We ask the foreign government to guarantee the exchange on the payments, that is to provide the dollars when the private industrial concern puts the pesos or the sols, or whatever they may have, in the national bank.

We ask a guaranty from the foreign government through its Department of Exchange, Exchange Control Board, or whatever authority it may have, by memorandum to have the national bank assure us that dollars will be available for conversion of the local currency, so that we may receive our payment in dollars on time. Those are the loans to private industries not guaranteed by foreign governments.

We also make loans in some cases to private industries guaranteed by foreign governments, where the foreign government is particularly interested in promoting a particular industry, although the government may not itself have any equity interest or any dollar interest in the corporation at all; but it may voluntarily give its guaranty on the loan.

A third class of loans are both governmental and private, the class we know as "exporter loans", where a builder of railway equipment, for instance, in the United States, or a builder of electrical equipment, electrical generating equipment, or transmission equipment, and so on, will sell to either a foreign government or a private company abroad. We have both classes on our books. The exporters themselves will take part of the risk; or they may get their banks to take another part of the risk. As I mentioned before, the participation may run as high as 50 or 60 percent on loans of that kind.

We recently made a loan to the Paulista Railroad in Brazil, one of the better-managed railroads in this hemisphere. There was a substantial participation by the sellers of the motive power and rolling stock which went to the Paulista. There was no guaranty by the government; there was only an assurance of conversion of cruzeiros into dollars when the cruzeiros are deposited in the bank.

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QUESTION: Mr. Gaston, does the Export-Import Bank charge the regular commercial interest rates on its loans and, if so, does that make the bank self-supporting, once it has received its basic capitalization of 3.5 billion dollars?

MR. GASTON: No one knows what the commercial interest rates would be in the case of most of the loans we are making, loans nobody else would make. Our rate of interest is low in most cases, a rate which would not be granted on a private basis, and the purpose of granting, making the loans at these low rates is to promote the development of those countries where the loans are made. As to the self-supporting element of your question, the bank has certain expenses; it has certain income. Its expenses include its cost to the Treasury for money, and they include its administrative expenses, including incidental expenses. The sum total of those expenses when deducted from the interest paid into the bank for the last fiscal year was 50 million dollars; that is, we made something slightly over 50 million dollars in profit last year.

QUESTION: Mr. Gaston, can you tell us to what extent a demand is made to coordinate the credit policies of the Export-Import Bank with those of the Federal Reserve, other than through the NAC, as you mentioned before? In other words, what are the over-all credit policies?

MR. GASTON: I don't think I can tell you of anything specific. We do have frequent contact with the Federal Reserve people. I know them all. All of us know most of them. Bill Martin, the Chairman of the Board of Governors of the Federal Reserve System, used to be chairman of the Export-Import Bank. If there is anything in the way of credit policies that he wants to call to our attention, he would not hesitate to do so.

QUESTION: Mr. Gaston, can you describe what correlation, if any, exists between the programs of the Export-Import Bank and the aid programs, that is, ECA?

MR. GASTON: Yes. Generally, we have not been making loans in countries where the ECA has been carrying on loan programs; that is, grant programs plus loan programs. I said something about the loans of the ECA; they are made out of Treasury funds, just as are the loans of the Export-Import Bank. The total here (referring to papers) is 1,339,441,000 dollars as of 30 June 1951. They are on the books of the Export-Import Bank for collection. They are made as Export-Import Bank loans but by direction of the ECA.

We have not been making loans in those countries where the ECA has had full programs of loans and grants, but recently we have undertaken joint programs in some countries.

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This is notably true in the Philippines, where the ECA has adopted the policy, in concert with us and after discussion in the National Advisory Council, of not making any loans in the Philippines but of leaving the loans to us and of making only grants to projects that are suitable for grant aid, that are not suitable projects for loans. Anything that is suitable for loan means something that can be self-sustaining, that can pay its way. That sort of project is handled by the Export-Import Bank. We are just about to make a substantial loan in the Philippines, as I mentioned before, and will continue with others. We are working very closely with the ECA there, as we are in Indonesia, where the ECA has a grant program and not a loan program, and we have a loan program.

QUESTION: Mr. Gaston, would you clarify what appears to me to be a conflict in terms? As I understood it, the Export-Import Bank was not permitted to make a loan if private industry would pick up a loan. Is that correct?

MR. GATSON: The words of the act are that we are not to compete with private capital.

QUESTION: That would be competing; unless they asked for exorbitant rates, such as 10 percent. Assuming their rates are normal, you are not to make any loans that will be picked up by private capital?

MR. GASTON: Yes sir.

QUESTION: (a) I am pleased again with your statement that 240,000 dollars was all the capital lost, which we will acknowledge is infinitesimal, and I can personally understand, counting the 5 million dollar exposure. (b) I understand you have guarantees from governments, guarantees sometimes from private companies that are substantial, like the railroad you spoke about, which are participating; also participation by private interests in this country which are supplying raw materials or functioning products. Why is it that private capital will not go into those countries in at least a few instances, thereby eliminating your bank from the necessity of making loans?

MR. GASTON: You are asking questions we have asked hundreds of times. Of people who control private capital, I would say this: That there is a tremendous fear of making foreign investments in these times. The fear is because of the general unsettlement of world conditions, because of the instability of the legal structure, as it thought of by the private capital market generally, and also because of some bad experiences that private capital has had in investments in foreign countries, which in my opinion were in many cases just foolish investments.

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QUESTION: Mr. Gaston, when ECA makes a recommendation on a loan, do you accept that, or does the Export-Import Bank evaluate that on its own terms and then decide whether the loan should be made?

MR. GASTON: As to this group, the ECA loans which we have listed--something over a billion dollars that I have in the book here--are made by the direction of the Administrator; we give them only the most casual look, because we are directed by the Administrator to make the loan. The Administrator gives his note to the Secretary of the Treasury and funds are made available for the loan.

That must be distinguished from an Export-Import Bank loan--we are glad to have the advice of the ECA and other agencies of the Government; but we make our own decisions. When I speak of ECA loans made in ECA countries and I speak in the next breath about loans made in the Philippines and Indonesia where the ECA has programs, I am speaking about two very different things. In the first instance they are ECA loans made on their judgment. In the second place they are Export-Import Bank loans made on our judgment. The five members of the Board are responsible for making the Export-Import Bank loans. We are not responsible for the ECA loans.

GENERAL HOLMAN: During the intermission we were discussing the difference between the Export-Import Bank and the International Bank, and the sources of the funds. Would you please give us a little more information on that?

MR. GASTON: Yes sir, I will be glad to do so. I may be indiscreet in doing it--I am not authorized to speak about the International Bank, but I can tell you some facts. The International Bank, as I remarked, was created as a result of the Breton Woods Conference. It was ratified by the Breton Woods Act of 1945 which was passed by Congress almost at the same time as the Act of 1945 which greatly increased our lending authority.

The sources of funds of the International Bank are the subscriptions of the member countries. There was a provision for an initial contribution of 2 percent in gold or dollars--I am not quite sure about that--I believe it was dollars; and then it was optional with the countries as to whether they would immediately contribute the remaining 18 percent. After 20 percent was reached, the funds of the subscription were to remain in a reserve to make good the default in any securities. The situation is, the United States put up the full one-fifth; the 2 percent plus 18 percent of this subscription; one-fifth of 3,175,000,000 dollars. No other nation has done that. The demand has been for dollar goods and dollar loans.

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Nearly all of the loans of the International Bank up to this day have been dollar loans or loans in which dollars have been used to purchase other currencies. No, that is not wholly true. There have been a few loans in which the local currency subscriptions of other nations have been used. But as a matter of fact, the operation of the International Bank up to date, it is a fair statement to make, has been almost wholly financed by the United States, although it is governed by an international board of directors and operates as an international institution.

The field in which it works is substantially the same field in which the Export-Import Bank has been working, and continues to work in countries which are not members. We continue to make loans in countries which are members, where we are augmenting projects which were already initiated; or where a loan is made to a private industry as distinguished from a loan made to a government, since all the loans of the International Bank must be guaranteed by governments. Then we have continued to make exporter credits for the export of American merchandise, even in those countries which are member countries; but in addition we have worked in countries which are not member countries, and in quite a number of countries, we have worked side by side with the International Bank. In the case of Yugoslavia, there was great urgency about it and we acted fast. We started making loans to Yugoslavia two years ago. We put out a total of 55 million dollars to Yugoslavia. The International Bank just recently made its first loan to Yugoslavia.

QUESTION: What relation, if any, does your bank have with the International Monetary Fund?

MR. GASTON: We have no formal relation with the International Monetary Fund. Both the Bank and the Fund send delegates to the National Advisory Council. They are not formal members of the Council, but they are free to present themselves on matters that come before the Council. We have had informal relations to the extent of asking the advice of some of the very good people on the Monetary Fund with respect to monetary problems when we are considering a particular loan in a particular country, or about a particular monetary situation in a particular country; where, for instance there is an acute inflationary situation or the prospect of one and we would like to have the views of the Monetary Fund as to what is the prospect with respect to the money supply, circulation, and value of the local currency; and we obtain it. Those things can be done without proceeding in too formal a way.

QUESTION: To what extent does the Export-Import Bank assist, directly or indirectly, in the program of building up a stockpile of strategic material?

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MR. GASTON: We have worked very closely with the Emergency Procurement Division of the General Services Administration, and with its successor, Defense Materials Procurement Agency. Dr. Rowntree happens to be the man who has the closest relation of anybody on our staff with those organizations. We have, with their assistance, made a number of loans for the working up of strategic materials. Those have included manganese, tungsten, and a number of other rare alloy metals. In addition we have made one loan for sulphur and have under consideration a couple of other sulphur loans; while sulphur is not a stockpiling material, it is a material in world shortage.

COLONEL HARDENBERGH: I would like to have you tell us about your field organization going to all those countries surveying the economic conditions of the country and searching for the natural resources.

MR. GASTON: We don't do any searching for natural resources, but we aid projects for strategic materials. It is the function of other agencies of the Government to do the field exploration, although, as a matter of fact, we have given some information to other agencies of the Government who have that responsibility, as the result of by-the-way observations of some of our people in the field. These critical materials applications come to us in one of two ways, either by reference from the Defense Materials Procurement Agency or its predecessor, or they come to us from people who have the projects. You would be surprised at some of the projects that come to us. There is the general belief, apparently abroad, that we are suckers for anything. But we do get by direct application a good many sound applications from people who have something they want to develop. We have one down in Argentina. It may be not the best country in the world in which to work, but nevertheless this man has some indubitable tungsten down there. He also has some sulphur; and we expect to help him develop it.

QUESTION: Mr. Gaston, are these loans short-term or long-term loans you make?

MR. GASTON: We make loans both short and long--sometimes as short as 3 years and we make them sometimes as long as 25 years. It depends upon the nature of the project and if it is a self-supporting project. We naturally look to two things: One is the earning capacity of the project, and two is the life of the material we supply. Obviously, you are not going to give the same length of term on a locomotive or railway car that may wear out or become obsolete quickly as on a hydroelectric installation.

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COLONEL HARDENBERGH: Thank you, Mr. Gaston. On behalf of the Commandant and the faculty I thank you for a most interesting lecture and a very informative discussion. Thank you, sir.

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