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Authorized and Pending Loans of the Export-Import Bank

M.J.P. Roberts

In July 1945, when the bill to increase the lending authority of the Export-Import Bank was under discussion in Congress, Leo T. Crowley, at that time Chairman of the Bank's Board of Trustees, stated that the $2.8 billion increase requested would probably suffice to finance United States exports required for reconstruction and development abroad only during the fiscal year 1946. It may be of interest to note, in the light of this statement, what loans the Bank has made since the beginning of the present fiscal year and what loans are at present under consideration by the Bank.

In July, the Bank authorized two reconstruction loans to European countries, one for $20 million to the Kingdom of Denmark and the other for $50 million to the Kingdom of Norway. It is reported that some of the larger items which Denmark wishes to purchase in the United States with the proceeds of its loan include automotive tools, trucks, tires, iron and steel, chemicals and rayon, cotton and woolen thread. It is also reported that Norway will use its loan to buy a variety of agricultural and manufactured products in this market. According to the press release of the Bank on the Danish loan, the credit will be available until the end of 1948 but subject to prior cancellation by either party on written notice. The loan will be amortized in thirty equal semiannual installments, the first of which becomes due December 15, 1951, and the last on June 15, 1966. Interest will be charged at the rate of 3-1/2 per cent on the unpaid principal balance and will be paid semiannually. Although the terms of the Norwegian loan have not yet been publicly announced, it is assumed that they will be similar to those of the Danish loan. According to newspaper reports, arrangements have been made in the case of both the Danish and Norwegian loans for United States commercial banks to advance the actual funds under a guarantee by the Bank that at the request of the commercial banks it will buy or take over the notes of the borrower. Under these arrangements (called "take-out" arrangements), the commercial banks receive part of the interest charged for providing the funds and performing the services required in connection with the loan while the Bank receives the remainder of the interest charged for assuming the risks in connection with the loan. It is reported that on the Danish loan the commercial banks will receive 1-1/4 per cent and the Export-Import Bank 2-1/4 per cent.

There are unconfirmed reports that the Bank is considering loans to war-devastated countries at a rate of interest below the 3-1/2 per cent charged on the Danish loan. It is understood that according to one plan under consideration loans will be arranged with serial maturities, with the interest rate ranging from perhaps 2-1/2 per cent to 3-1/2 per cent on notes of varying maturities. The rate on loans would thus be determined by the cost to the United States Government of raising funds through the sale of its obligations for periods of, say, five, ten, or twenty years. A margin designed to cover the element of risk would be added to this basic cost rate. By this method of arranging serial maturities, the cost to the borrower would be lowered while the Bank would still receive interest adequate to cover its operating costs. On such terms the average rate on a loan with an overall maturity of 20 years, such as the Danish loan, might approximate 3 per cent. A still lower rate may be charged on loans granted to replace the financial arrangements concluded with certain countries under Section 3 (c) of the Lend-Lease Act.

The Bank has also recently authorized two loans to Latin American countries to finance purchases in this country of equipment and services in connection with development projects in the borrowing country. The larger loan of $33 million is to the Fomento Corporation of Chile. Of this total, $28 million will be used for the construction of a steel mill near Concepcion and $5 million for other development projects including equipment for a hydroelectric plant to meet the power requirements of the steel mill. The cost of installation and other local expenditures will be financed domestically. The smaller loan of $1 million is to the Republic of Ecuador to be used to employ United States experts and technicians to study a development program for the country, including the building of highways, railroads, and irrigation projects.

In addition to these reconstruction and development loans already authorized, it is reported that the Bank has under consideration loans to European and Far Eastern countries to finance purchases in the United States for reconstruction of these war-devastated areas and in some cases to finance the delivery of goods requisitioned by foreign governments under Lend-Lease agreements. Countries with which negotiations are said to be in progress include the Netherlands East Indies, Belgium, Holland, France, Czechoslovakia, Greece, Russia, and China.

According to newspaper reports, France is requesting a loan of $550 million, Russia a credit of $1 billion, and the Indies a loan of $65 to $100 million. It is further reported that Ecuador has requested a loan of $20 million to finance purchases in the United States in connection with its public works programs. It is rumored that a condition of this loan may be long-term or permanent use by the United States Government of air bases constructed by the United States on the Ecuadoran Galapagos Islands off the Panama Canal.

In the opinion of some observers, the $3.5 billion lending authority of the Bank may not be sufficient to meet the urgent needs in the present fiscal year of foreign countries for dollar credits for reconstruction and for development purposes. This belief is based on the fact that with the cessation of Lend-Lease, the Bank will be required to grant loans to war-devastated countries to finance rehabilitation supplies which otherwise would have been provided under Section 3 (c) of the Lend-Lease Act. To the extent that loans of this character are required, funds of the Bank will be diverted from financing reconstruction and development projects. It is reported that government officials are already thinking in terms of a new request to Congress for expansion of the Bank's lending authority by an amount at least equal to that involved in the shift from Lend-Lease to Export-Import Bank loans.

Italian Budget for 1945-46

J.H.F.

The Italian Government has approved a budget for the financial year ending June 30, 1946, which contemplates ordinary expenditures of 181.6 billion lire, and extraordinary expenditures of 50 to 70 billion for reconstruction, repair of war damages, and relief. Revenues are estimated at 80 billion, leaving a deficit of about 130 to 150 billion to be covered by an increase in taxation, by the sale of relief goods, and by borrowing. About 63 per cent of the expenditures are budgeted for the 36 provinces of Southern and Central Italy, from which only 37 per cent of the revenues are expected. Allied authorities have estimated the total deficit at 200 billion lire, and have declared that the budget figures seem overoptimistic in regard to expenditures in and revenues from the liberated provinces of Northern Italy, at present under Allied military administration. Meanwhile, however, the optimism of Italian officials has been partly justified by the results of the Government loan offered in the South in May and in the North in July 1945.1/ Subscriptions in the former area reached 31 billion lire, and the Government expected no more than an additional 50 billion from subscriptions in the North. Actually, however, the North took over 73 billion. If this ratio is accepted as an indicator of income and wealth, tax revenues from the North may be expected to form not 63, but rather 70 per cent of the total, and the figures of the Government budget may prove to be more accurate than those of its Allied critics.

1/ See Review of Foreign Developments, July 23, 1945, p. 5.

Future of the Chilean Exchange Rate

Florence Nixon

The Chilean Congress will soon consider a bill to approve the Bretton Woods Agreements. Although there is little question that the Chilean Congress will vote to enter the Fund, yet to be decided is the exchange rate Chile will establish upon entry. Since under the Bretton Woods Agreements member nations may devalue their currency by no more than 10 per cent without the approval of the International Monetary Fund, Chile appears anxious to make any desirable adjustments in her exchange rate beforehand. Of course, the Fund, when operative, would be obliged to agree to a proposed change if such were necessary to correct a "fundamental disequilibrium."

The Directors of the Banco Central have publicly recommended to the Minister of Finance retention of the currently effective exchange rate of 31 pesos to the dollar.1/ Exporters in general, supported by the head of Chile's Development Corporation, Senor del Pedregal, have supported devaluation. Senor del Pedregal announced that the "real value of the peso is approximately 40 pesos to the dollar, and before entering the Fund such a rate should be established." If such a rate is adopted, it would constitute a devaluation of approximately 23 per cent in terms of dollars.

As an important mineral-producing country, Chile faces a serious problem in her balance of payments. Dependent upon copper and nitrates for the bulk of its exports (70 per cent of the total value in 1938), Chile expects a fall in the supply of foreign exchange with the cessation of war demand. Chilean officials still remember the experience of 1929-1932, when in the short space of three years the nation's exports dropped to only one-eighth of their former value. Under the United States Government purchase agreements operating during the war, Chile was exempted from the four cents per pound tariff on copper imported into the United States. With the resumption of private trading, Chilean copper may be hard pressed in the United States market.

Chile has, moreover, experienced substantial inflation during the war. In fact, inflation has been greater than in any other Latin-American country with the exception of Nicaragua and Bolivia. Food prices increased approximately 128 per cent in the period 1939 to April 1945, clothing by 197 per cent, and the cost of living by 125 per cent. Although Chile's gold and foreign exchange reserves have risen to the value of 100 million United States dollars as a result of the war, this sum would provide only a limited offset to a loss in exports.

1/ While at present Chile uses multiple rates, in actual fact most commodities are subject to the rate of 31 pesos. The four prevailing rates are: (1) the "special" rate, 19.37 to the dollar, at which exporters must sell specified percentages of their export proceeds; this is the rate of "cost of production" dollars at which large mineral producers must return to Chile an amount to cover their costs of production in pesos; (2) the export draft rate, 25 pesos, existing for only three "essential" items; (3) the D.P. rate (disponibilidades proprias--private funds), 31 pesos; (4) the free exchange rate (curb), slightly above D.P. rate.

The pressure to import durable consumer goods and capital equipment unobtainable during the war has increased. Under these conditions, Chile is greatly concerned over the probable loss of export markets, both from the point of view of employment and of the balance of payments. It has been estimated that prior to the war 8 per cent of the total population was dependent directly or indirectly upon copper and nitrate production. As an offset to the employment effects of declining exports, the nation has made plans for large-scale industrialization and public works programs. Domestic readjustments along the lines of industrial diversification do not, however, constitute an immediate solution to the balance-of-payments problem. Industrialization, if not accompanied by foreign credits, may intensify the demand for foreign exchange and, unless carefully controlled, may increase exporters' costs of production.

The relatively inelastic demand for Chile's major exports makes devaluation comparatively ineffective in correcting a potential deficit in the balance of payments. Devaluation would, however, tend to decrease the competitive disadvantage of Chilean copper exports in the world market, and to reduce imports. An alternative to devaluation, insofar as copper is concerned, may be to raise the "special" exchange rate of 19.37 pesos per dollar, at which the copper producers must now sell a part of their exchange, to a higher rate, perhaps a rate of 31 pesos. The competitive position of Chilean copper producers would be greatly improved by the reduction or elimination of the exchange differential which is tantamount to an export tax. Whether this action would be sufficient to correct Chile's potential balance-of-payments deficit depends upon the extent to which the demand for copper is maintained in the post-war period.

Despite the Banco Central's present opposition to a change in the exchange rate, devaluation in the future will probably be inevitable if the persistent inflationary tendencies displayed by the Chilean economy during the last decade are not checked. On the other hand, the recent Export-Import Bank loan of 33 million dollars, to be used for the construction of a steel plant and for public works, will help cushion immediate exchange difficulties; credit facilities which may become available under the Bretton Woods Agreements would have a similar effect. In the long run, the fate of Chilean exports will be largely influenced by developments abroad and by the level of income and economic activity in the leading industrial countries, particularly in the United States. International commodity agreements covering its mineral export products may also greatly affect the foreign trade position of Chile.

Effect of Imperial Preference on Source of British Imports

Randall Hinshaw

Below is a series of tables containing information relating to British imports in the years immediately before and after the Ottowa Agreements of 1932. The tables seem to show clearly that the policy of imperial preference, which was firmly established by these agreements, was highly successful in achieving a shift in the source of British imports--a shift in favor of the Empire and at the expense of the rest of the world.

Table 1 shows the proportion of British imports obtained from the Empire during the period 1924-31 and during the period 1932-38:

Table 1
Percentage of United Kingdom Imports Obtained from the British Empire

	1924-31	1932-38
Food, drink, tobacco	37.4	46.6
Raw and partially processed materials	43.3	43.8
Finished goods	8.4	20.5
All imports	27.5	36.9

It will be noted that, except in the case of raw materials, there was a marked rise after 1931 in the proportion of British imports obtained from the Empire. In the case of finished goods, the rise was notably sharp. In every case where there was a marked difference in the percentage for the two periods, there was an abrupt jump from 1931 to 1932, indicating that the change in the percentage is to be attributed mainly to imperial preference, and not to a long-range trend.[1/] Thus, the proportion of finished goods imports obtained from the Empire, which annually varied only between 8.1 and 9.0 per cent during the period 1924-31, suddenly jumped from 8.2 per cent in 1931 to 14.9 per cent in 1932, and continued to rise every year thereafter until 1938.

In Table 2, the proportion of British imports from certain countries is shown for the two periods:

1/ The depreciation of sterling late in 1931 also played a part, since it tended to make British imports from non-Empire countries more expensive than British imports from the Empire. This special factor ceased to be operative following depreciation of the dollar in 1933. Examination of the data for individual years leaves little doubt that the changes shown in Table 1 were chiefly the result of imperial preference.

Table 2
Percentage of United Kingdom Imports Obtained from Selected Countries

	1924-31	1932-38
Canada	4.8	7.9
Australia	4.1	7.0
New Zealand	3.7	4.9
India	4.7	5.4
United States	17.3	11.7

It is clear from this table that there was a sharp rise after 1931 in the percentage of British imports obtained from Canada, Australia, New Zealand, and India--the four leading Empire sources of United Kingdom imports. At the same time, there was a marked reduction in the proportion of British imports obtained from the United States. It is interesting to note that in the first period the United Kingdom imported as much from the United States as from the other four countries combined. While this was by no means true in the second period, the United States continued to be the most important source of British imports.

Table 3 throws an interesting sidelight on Table 2 by showing, for the same five countries, how the percentage of exports to Britain changed after the Ottowa Agreements. Figures are shown for the two years 1928 and 1938:

Table 3
Percentage of Exports Going to United Kingdom

	1928	1938
Canada	32.8	40.1
Australia	37.8	53.7
New Zealand	73.5	84.4
India	24.0	38.5
United States	16.5	16.8

In the case of the four Empire countries, the percentage of exports going to the United Kingdom was considerably higher in 1938 than in 1928. The proportion of United States exports going to Britain was approximately the same in the two years, but the value of American exports to Britain was of course much lower in 1938 than in 1928.

Thus far the discussion has been almost entirely in relative terms. How was the <u>volume</u> of British imports from the Empire and from non-Empire countries affected by imperial preference? In Table 4, the average annual volume of British imports from selected areas for the period 1924-31 is compared with the average annual volume for the period 1932-38:1/

Table 4
Average Annual Volume of United Kingdom Imports from Selected Countries

(Millions of Pounds Sterling at 1938 Import Prices)

	A 1924-31	B 1932-38	C B as % of A
Empire (total)	224.9	298.7	133
Canada	38.9	63.3	163
Australia	34.1	56.5	166
New Zealand	31.0	40.0	129
India	37.6	43.4	115
Non-Empire Countries (total)	594.8	513.0	86
United States	139.0	94.6	68
Total	819.7	811.7	99

It can be seen from this table that the absolute changes in the source of British imports after 1931 were quite as striking as the relative changes. The volume of British imports from the Empire was one third higher in the period 1932-38 than in the period 1924-31, while the volume of British imports from non-Empire countries dropped by 14 per cent. In the case of particular countries, the changes were still more spectacular. Thus the volume of British imports from Australia and from Canada was more than 60 per cent higher in the second period than in the first, while imports from the United States were 32 per cent lower in the second period. It is interesting to note that the average annual volume of total British imports during the period 1932-38 was only slightly smaller than during the period 1924-31.

1/ The volume figures were obtained by dividing value of imports by the British import price index, which was first converted to a 1938 base. The figures are only approximate, since import price indexes are not available for the individual countries from which Britain imports, but the error is not believed to be serious.

Surplus Disposal in the Near East

J.H.F.

Until recently, the sale of Army-Navy surplus in the Near East was hampered by the agreements that bind most Near Eastern countries to the sterling bloc and that prevented these countries from buying United States goods for local currency. The British authorities insisted upon these provisions because they feared that the Near Eastern countries, if able to buy import goods for local currency, would circumvent their obligation of delivering their dollar receipts to the common pool of the sterling area by selling export goods to the United States for local currency rather than for dollars. The obvious solution (see this Review, April 30, 1945, Supplement, p. 3) consisted in permitting the United States to sell its surplus for local currency, but forbidding the use of that currency for purposes of foreign trade. This compromise has now been adopted by agreement between the Department of State and the British Government for sales in the entire Near Eastern sterling area (Egypt and Sudan, Iraq, Palestine and Transjordan, Cyprus, and Aden). Neither the surplus goods sold, nor the local currency received, may be transferred from one country to another, and the currency may be used only by United States Government agencies for expenditures other than the purchase of goods for export. The new agreement will no doubt enable the local authorities to acquire and distribute goods otherwise unobtainable, and thus to relieve the inflationary pressure upon the local economies. At the same time, it will facilitate and accelerate the disposal of surplus goods, and relieve the United States Treasury from the necessity of transferring dollars to the Near East for covering the expenditures of the local representatives of the United States agencies. A minor but interesting use for foreign currencies acquired through surplus sales has been suggested in a bill (S-1440) introduced by Senator Fulbright on September 27. This bill would authorize the Surplus Property Administration to use the proceeds of foreign sales to finance the exchange of American and foreign students. Such disposal of funds would be subject to approval by the Secretary of State and would be designed to "promote better relations between the respective governments."

New Economic Disturbances in Greece J.H.F.

The deflationary program of the Greek Government has come to a sudden end. On September 2nd, 1945, Vice-Premier Varvaressos resigned from his position as economic "dictator" under pressure from extremist elements both of the right and of the left. The Government promised to continue his policies, but the emptiness of this gesture was shown by the increase in prices that preceded and followed the news of his resignation. During September 1945 both the general price index and the price of the gold sovereign reached and passed their levels in May 1945, from which they had declined by 20 to 30 per cent during recent months. This price movement in turn generated a wave of strikes, the workers being unwilling to accept a further drop in the purchasing power of wages. It was the vicious circle of price and wage increases without a corresponding rise in production that Varvaressos had tried to break. Leftist attacks upon the Varvaressos policy stemmed from disapproval of his efforts to reestablish the Greek economy on a liberal, private-enterprise basis; business opposition had no economic foundation other than resistance to Varvaressos' drastic tax measures.[1] The result has been the overthrow of the member of the Government whose leadership gave the best promise of eventual economic stability. Varvaressos has consented to resume his former position as Ambassador-at-large in economic affairs, and is reportedly preparing for a trip to the United States for a discussion of credits and other economic assistance. Unless the country manages, however, to put its domestic economic affairs in order, it is hard to see how Varvaressos can make a success of his mission.

1/ See Review of Foreign Developments, August 6, 1945, p. 4.