THE ROLE OF THE EXPORT-IMPORT BANK

6 February 1962

CONTENTS

Page

INTRODUCTION--Vice Admiral Rufus E. Rose, USN, Commandant, Industrial College of the Armed Forces 1

SPEAKER--Honorable Harold F. Linder, President and Chairman of the Board of Directors, Export-Import Bank of Washington 2

GENERAL DISCUSSION 13

NOTICE

This is a transcript of material presented to the resident students at the Industrial College of the Armed Forces. As such it represents the views of the author and not necessarily those of the Industrial College or the Department of Defense. Members of the College may quote it only in student reports or publications for use within the College. Other persons may not quote or extract for publication, reproduce, or otherwise copy this material without specific permission from the author and from the Commandant, ICAF, in each case.

Publication No. L62-119

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D.C.

Mr. Harold F. Linder, President and Chairman of the Board of Directors of the Export-Import Bank of Washington, was born in Brooklyn, New York on 13 September 1900. He attended Columbia University and continues his interest in higher education as a Trustee of the Institute of Advanced Study, Princeton, and as Director of the Institute of International Education. During World War II he was a commander in the U.S. Navy, assigned to the Bureau of Ordnance and later to the Secretary's Office of Procurement and Material. From 1951 to 1953 Mr. Linder was Deputy Assistant Secretary and Assistant Secretary of State for Economic Affairs. From 1955 to 1956 he was a member of the Board of National Estimates of the Central Intelligence Agency. He has had an active career in private business and served as a director of many corporations. This is Mr. Linder's first lecture at the Industrial College.

THE ROLE OF THE EXPORT-IMPORT BANK

6 February 1962

ADMIRAL ROSE: The modern world has never escaped international monetary and financial troubles. I suppose we never will. In the last 20 years these problems have vastly increased in complexity and number.

Our lecture today, "The Role of the Export-Import Bank," will provide us an insight of international finance at work. In its 27 years of existence, the Export-Import Bank has authorized more than $10 billion of repayable loans which have helped many nations to improve their economic position. This in turn enhanced the foreign trade possibilities for American business.

You all have looked at the very excellent brochure which we have on the history of what the Export-Import Bank has done in this time.

Our speaker's background includes important positions in various career fields. At Princeton University he is a Trustee of the Institute of Advanced Study and the Director of the Institute of International Education. He served as a commander in the U.S. Navy during World War II--and I find that we were in the Bureau of Ordnance at the same time--and then further demonstrated his versatility as Assistant Secretary of State for Economic Affairs. In private enterprise his experience includes many things, including getting up to the level of director of corporations.

When I discuss his qualifications to speak on today's subject, I need to cite only his current position.

We are indeed fortunate to have with us this morning for his first lecture to the College, the President of the Export-Import Bank of Washington, the Honorable Harold F. Linder.

Mr. Linder.

MR. LINDER: Thank you very much, Admiral.

You gentlemen, as a group, are probably not interested in banking, per se. Your interest, as defined by the Joint Chiefs of Staff, lies in "the economic and industrial aspects of national security." Thus, if I am to interest you, I must make you see how and why I think the Export-Import Bank does play a part in these aspects of our security.

I need hardly remind you that economic and industrial penetration is a facet of the cold war, and as practiced by our adversaries has but one purpose. It seeks to forge trade ties and, in the development area, purports to raise the standard of living of the country so penetrated. Thus, it seeks to disrupt, reduce, and ultimately replace Western influence in the country and to gain an economic dependency and its concomitant, a close political tie.

I am sure you don't underrate the efforts of our adversaries. In 7 short years, the economic aid commitment of the Russians has risen from virtually nothing to $4.3 billion of U.S. dollars. Faced with this offensive, the United States, in the economic sense, seeks today to follow General Nathan Forrest's dictum to "git thar fustest with the mostest."

Our bank constitutes an integral and important part in the measures and countermeasures which the United States and its allies take to bolster freedom in the developing world; and in this effort of our Government the Export-Import Bank, we think, occupies a unique and interesting position. It is our function as defined by statute to finance and facilitate overseas trade and to make loans for specific purposes. But we are also required to make such loans in conformance with another criterion, which is that there must be a reasonable promise of payment. Hence our area of effort tends to be in the more economically productive investments in those countries which have or appear to have adequate repayment capacity.

That there be such assurance of repayment dictates that the bank must make an analysis of the end use of the loan in order to establish in its own mind the economic feasibility of the project. This in turn puts the bank in the position of a true bank, specializing in project loans which in the private world would be called short-term to medium-term (say 8 to 20 years) and at rates of interest (5.75 percent) not far from commercial ones but in most cases well

below those prevailing in the borrowing country. The purposes to which the loan is to be put and the capacity for repayment are reflected in the project itself. The categories are transportation, communication, power, mining, steel, and so on.

The loans of our bank are frequently designated as "hard loans" in contradistinction to those loans which are termed "soft loans" where, in order to reflect an overriding policy interest of the United States, an aid philosophy must rule. Here the length of repayment stretches out and the difference between the going banking interest rate and a much lower interest rate represents a concession in the interest of United States policy and a recognition of limited capacity to earn quickly the dollars with which to repay.

To carry out its functions, the bank has a capital of $1 billion, held by the United States Treasury, and in addition has been granted by the Congress a call upon the Treasury, in the form of interest-bearing loans, for advances up to $6 billion. Today, our reserves total $725 million; we owe the Treasury $2 billion; and we have a $1.35 billion uncommitted lending authority under a total authorization capacity of $7 billion.

The direction of this not inconsiderable financial operation is in the hands of a bipartisan board of directors, of whom there are five, and of which I am the chairman. This board is named by the President under the requirement that not more than three members of the board may be of any one political party. At all times before the board as it makes decisions is our statutory requirement: That there be a reasonable assurance of repayment. We lend only in dollars and for dollar repayment, and we expect to be repaid. Parenthetically, we have been repaid. Over the years, to 30 June last, we have authorized some $12.3 billion of loans. Subtracting such items as participation by others and cancellations, totalling some $2.3 billion, leaves us with net authorizations of about $10 billion. I might add that the bulk of that has been loaned since the end of World War II. Of this amount we have disbursed $7.8 billion, we have been repaid $4.5 billion, we had outstanding as of the end of our last fiscal year $3.4 billion, and have undisbursed commitments of about $2.3 billion.

Interestingly, in relation to this volume of lending, there are few significant loans in default--Cuba, a tail-end of a loan to Mainland China (and I might say that was a $220 million loan of which all but $20 million has been repaid), Bolivia, and Haiti. I omit those

delinquencies caused by normal commercial delay and by balance-of-payment crises which usually, thus far, at least, have been relatively short-lived.

No doubt this record of the Export-Import Bank accounts in some measure for our reputation. Here in the United States, or at least in Government circles, we are sometimes thought of as cold money-lenders, although foreign borrowers who know us don't generally take this position. But I would like for a moment to expand a view of banking not only so far as my own institution is concerned but for banking processes in general.

As distinguished from what one might call a pawnshop operation depending only on security and without regard to need, or concern as to what purpose the money is to be put, true banking involves adding to the resources of a borrower so that he can use them to make a profit great enough to repay the lender and enjoy a net return for himself. I maintain this to be a fundamental consideration in any lending activity. We, too, try to make a profit, and we do. As with all lending bankers, the difference between the interest we charge and the interest we pay, in our case to the U.S. Treasury, is the measure of our profit. It has enabled us in the last fiscal year to pay a dividend of $30 million to the Treasury and to add $63 million to our own reserves. In addition, I might say, we paid $43 million of interest, to the Treasury. It is a unique position. We assist the U.S. exporter; we are not competing with private interests; we contribute to our national objectives; and we make a profit for Uncle Sam. It's a happy operation.

Obviously the book of our total effort in friendly countries will contain many quite different types of financing. Throughout history, no doubt extending back to ancient peoples, a nation has extended aid to other states or tribes as a way of enlarging its power or improving it political relations. This may have taken many forms, such as outright bribes, simple subventions, or grants, and, of course, loans. Certainly there is sufficient reason to believe that the United States today, given our complex power relations with friendly and enemy countries, has need for means of extending financial assistance and influencing other countries which go beyond those orthodox banking concepts and judgments which I have stressed.

But it is essential that we think clearly and not confuse the economic with the political type of assistance. There is a great deal of advantage to the United States, and to the borrowing countries as well,

that as far as possible our extension of financial resources should take the form of reasonably orthodox, sound banking transactions; that our lending to other countries be sufficiently productive to permit the repayment of the loan on reasonable terms and provide also an enhancement of the position of the borrower. Most of the United States Government transactions take this form, and there are few countries that are in such poor financial position that none of our financial assistance can take the form of true loans.

To be sure, there are some countries whose fundamental viability, on military or economic grounds, is so seriously in doubt that it is not reasonable to advance funds for any purpose, however productive the individual project may be, on these usual sound banking terms. But this does not mean that all underdeveloped nations are characterized by these elements. Profit rates or, if you will, productivity rates for new investment in underdeveloped countries, are very high indeed and it is not cold or mercenary to suggest making many of our country's loans on reasonable, and so-called hard terms. We must not appraise and conduct all intergovernmental financial transactions purely on an aid philosophy. Rather, it is advantageous both financially and politically that, wherever the circumstances permit, lending be on intelligent, sound premises; and that this be our practice.

Leaving now these broader comments, at the Export-Import Bank we think of our loans as falling into these categories: There is the normal exporter credit in which a firm in the United States is selling a specific article or a piece of machinery to a buyer in a foreign country; there are loans to finance large exports of commodities; there are emergency foreign trade loans; and there are our project loans. As the great weight of the Bank's lending, some $4.7 billion, is in this category, I shall take last things first.

Of this amount of development loans, the breakdown is approximately as follows: $2 billion in transportation and communication facilities; $750 million in electric power; $750 million in metal refining and fabrication, primarily steel; $500 million in mining development, and $1 billion for a wide list of industrial projects--chemical, fertilizer, textile, paper, and cement.

A primary requirement of any project development loan, a requirement which enters actively into our thinking in any preliminary discussions with the borrower, is this: Will the proposed

financing assist the economic development and thus add to the well-being of the country in question? As we let our minds wander over this wide range of industrial projects which we have helped to finance in some 70 countries, most of them developing countries, I hope you will agree that we have met this kind of requirement. This being so, it is curious how often the Bank's operations have been characterized as having no significant relation to such economic development goals. This is thought to be the function of aid funds, motivated by an aid philosophy. Yet the fact is that financing the purchase of machinery and related equipment on a sound financial basis, be it for a steel mill, a new mining operation, public utility, or a hotel, has an effect no whit different. The difference between the two philosophies lies elsewhere. The aid philosophy should apply, and does, in those areas where the rate of dollar earnings possible for the developing economy dictates longer terms of repayment and lower interest charges. What we are dealing with here is a time-interest subsidy in order that the country concerned have a reasonable chance to meet its obligations in dollars--no matter how profitable the particular project may be.

I need spend very little time discussing our commodity loans. In recent years we have made about $1.25 billion in loans to finance the purchase of U. S. agricultural commodities. These loans were more important a few years ago, but have become less so since the Department of Agriculture has been given more flexible powers and considerable funds under its own statutes in order to deal with our disposal of agricultural surpluses. Nevertheless, we continue to lend in the neighborhood of $100 million annually for such transactions.

To a very large degree, the trade development loans by the Export-Import Bank, frequently in South American countries, reflect our attempts to aid countries friendly to us who are experiencing balance-of-payment difficulties. Generally speaking, it is hoped that these difficulties are of a temporary nature. Thus our loans in this area are in essence standby loans. If we can help tide the country over, it may get itself on a sound financial basis. I might add again, parenthetically, that those loans are also tied to the purchase of American goods, commodities, materials, although I confess not as clearly geared into a particular economic project as is the case when we make project loans. In essence, then, this segment of our activity--the trade development loans--reflects a substantial contribution to the economic as well as the political interests of the United States. Without them, trade between the two countries--our

country and the country in need--would grind to a halt. I might say also that we in the Government do our best in situations of this kind, wherever possible, to work out a consortium approach in which we look for and frequently obtain participations by the International Monetary Fund, private banks, foreign banks, and foreign governments, in this emergency trade-development activity.

I come now to that area of our operations which is reflected in our name, that is to say, our straight short-term and medium-term export-import operations. Incidentally, the "import" side of our name is of very little importance. In the past year I can recall only one transaction of this nature even considered by the bank. The reason for this is quite simple. It is that, when the U.S. businessman wishes to buy from abroad, the seller either extends credit or the buyer pays cash or finances himself through his normal U.S. commercial banking facilities. The importance of loans for short-term and medium-term export transactions is not to be measured by the volume of authorizations in this category, because up until now it has been relatively small. The great importance stems now from the U.S. balance-of-payments difficulties, attributable to our military and other commitments throughout the world, rather than because our ability to export has diminished.

I would not have you assume from our difficulties in this area that our industrial efficiency is slipping. The United States still sells competitively in the world market, but we are threatened. Indeed, a recurrent theme at the National Foreign Trade Convention in New York last November was the plea to recognize that Europe and Japan are back on their industrial feet as able competitors in the world marketplace. Another was the plea to recognize that the lush post-World War II years of the American seller's market are no more. The world market is once again a competitive market. Within a few short years it will be a fiercely competitive market and, if we are to maintain the dollar as the primary currency of the free world, we must sell more goods overseas.

And so the Export-Import Bank's traditional function of giving assistance to the export segment of our economy now has an added urgency and the bank's recent moves to augment our services to United States exporters have assumed an added importance. It is therefore proper that I tell you something of our operations in this area and describe to you some of the innovations which we have introduced in the last year to help our industries export more U.S. goods.

One salient point we have kept before us is the desirability of getting small- and medium-sized U.S. firms into the export business. And the converse is true. We are equally interested to sell U.S. equipment to small- and medium-sized firms abroad. To help accomplish the latter, we are utilizing a type of credit known as an industrial bank loan. To illustrate, last February we authorized a $25 million credit to the Industrial Bank of Japan, which in turn made the money available, through Japanese commercial banks, to small- and medium-sized manufacturers for the purchase of U.S. equipment. Within a very few months, the credit was completely allocated to a good many small buyers--in fact, applications were more than three times the amount we made available. To adhere to sound banking practice, we place a ceiling of a few hundred thousand dollars on the amounts of any individual loan and reserve the right to approve allocations in amounts above $100,000. Literally hundreds of U.S. suppliers are receiving orders as the result of this transaction, and I might add that we have done similar operations in three other countries.

A major effort of the Export-Import Bank during the past year has been to comply with President Kennedy's directive to assure that our Government provide assistance to American exporters at least equal to any such assistance to be found abroad. Two new programs have been initiated which we think will be of prime importance to U.S. foreign trade in the competitive years ahead. One is the broadening of our guarantee system offered directly to commercial banks. The other is a plan to provide export credit insurance directly to exporters.

Our program with commercial banks and other financial institutions consists, essentially, of the offer of a combination of Export-Import Bank guarantees on medium-term export transactions. It is designed to encourage nonrecourse commercial bank participation in export sales and to facilitate the buying of export paper from commercial banks by other financial institutions should they so desire. The Export-Import Bank will offer a political-risk guarantee on that portion of each medium-term transaction for which a commercial bank assumes the credit risk, provided an Export-Import Bank guarantee covering both political and credit risks is taken on the balance of the commercial bank's transaction.

Now, a political risk, gentlemen, not only means what the layman normally assumes to be a political risk; not only includes the risk from insurrection and riot, and acts directly by a government, but it also includes those risks which are implied in the inability of the

buyer who is paid for his merchandising in his own currency to get the dollars necessary to meet his obligation in the United States. It includes such things as long, protracted default, through no commercial fault on the part of the buyer. The credit risk relates directly--as it would in the United States, except here it is in another currency--to the fact that the buyer must pay his bill into his own bank for the account of the seller.

The amount of cash payments to be made by the foreign buyer on medium-term credits also has been under review. This is a point which is basic alike to export credit insurance, nonrecourse financing by banks, and exporter credits granted directly by Export-Import Bank. The 20-percent cash payment formerly required of the foreign buyer has now become more flexible and may be reduced in appropriate cases to as little as 10 percent. This step was taken to allow United States exporters to offer terms which are as advantageous as those sometimes offered by foreign exporters with the support of their governments.

The second new major program of Export-Import Bank, as I mentioned, is in the area of direct export credit insurance to exporters. Since the spring of 1961, Export-Import Bank has provided political risk insurance on short-term export transactions. But U.S. exporters, with varying degrees of heat, have been calling for a comprehensive insurance plan which would cover both political and credit risks, on a medium-term as well as on short-term loans. A great deal of our energy has been addressed to meeting this demand during the past year.

We concluded that if comprehensive political and credit risk insurance was to be offered in this country, then, both in accordance with our mandate from the Congress and our own desires, we should do our utmost to bring in the private insurance companies and certainly to avoid competition with them. Throughout the spring and all last summer we explored, through studies and frequent negotiation and with the aid of consultants from outside the Bank, the possibility of creating an association of private insurance companies who would be prepared to issue a comprehensive policy to interested exporters.

This work has now borne final approval. Yesterday the Foreign Credit Insurance Association was in business, formed by a group of U.S. insurance companies, engaged in casualty, property, and marine insurance. In effect, the FCIA has entered into a partnership

with us for the issuance of the much desired comprehensive export insurance to U.S. exporters.

I would have you notice how carefully our plans in the export credit field have been tailored to supplement and encourage, not to compete with, the efforts of private capital. I can assure you that in the other most important area of our activities, that of project development loans, we have been guided by the same principle and do not seek to lend where private capital is available and on reasonable terms. Indeed, the Bank has at times denied an application on its own judgment that private capital would become available. In following these policies, we have proved faithful to the mandate given us by the Congress and true to our national traditions and beliefs as the world's dedicated proponents of the principles of free competitive trade and profit.

As you know, we are certainly not alone in our economic contribution to national objectives abroad. There are other lending authorities. Probably the most important one, and the one created just in the past year, is the new Agency for International Development generally referred to as AID. The activities of this agency and those of our Bank impinge on one another in that most important area of the business of the Bank, namely, that of long-term project lending.

Put simply, I think that the activities of AID should begin where those of the Export-Import Bank leave off, or cannot even start. Thus AID should neither make hard loans which the Bank might make nor authorize on soft terms transactions that could be financed on normal terms, by our Bank. On any other basis, AID loses its chief raison d'etre. Conversely, if the Bank were to make loans moved primarily by an aid philosophy, rather than "to facilitate exports" (I am quoting from the statute) of the United States and "for specific purposes" then the Bank loses its character and strength and its chief reason for existence.

The loans, then, of AID and our Bank constitute the most important elements in the U.S. program for any developing country. AID and the Bank should not compete one against the other, and the project loans of the Bank should be counted in the tally of our country's development lending and aid.

It follows that there is a very real need for liaison between our two institutions. Indeed, the Executive order of our President setting up AID gave recognition to this very problem. It provided for a Development Loan Committee, the chairman of which is the AID Administrator

and on which I have the honor to serve, along with the Assistant Secretary of the Treasury for International Affairs, the Assistant Secretary of State for Economic Affairs, and the Deputy Administrator of AID. This Committee passes on policy questions for all AID and up to now, at least, it has reviewed and approved every significant loan made by the AID organization. It is not directly concerned or indirectly concerned with the operations of our Bank, but I, as president of our Bank, am a member of this Committee, as I indicated.

In addition to the existence of this Committee, there will continue to be a liaison which I confidently expect will insure that conflicts will not arise between the lending policy of the Bank and that of AID. I rely for my confidence not only on the logic behind that definition of function of which I have spoken but also upon the fact that we have excellent working relationships with the senior as well as the staff people in AID. AID now embraces the former Development Loan Fund, and we have carried over to AID the very good working relations which we had with the Fund at both the staff and the executive level.

The general coordinating mechanism in the United States Government in the areas of foreign financial operations is, of course, the National Advisory Council on International Monetary and Financial Problems, which was established under the Bretton Woods Act primarily to coordinate, as you may know, United States Government policies with those of the International Bank for Reconstruction and Development and the International Monetary Fund. It was designed as a means by which the United States executive directors of these institutions could discuss their problems and receive, if you will, their instructions. This body is active, but in some respects it is a remote way of establishing the coordination on particular loans, since, by the time they come to the formal attention of the National Advisory Council, a great deal of staff work in the operating organization has taken place and negotiations have almost been consummated. The NAC does approve our project loans, but largely to insure that they do not conflict with national policy. NAC's important function relates to basic policy decisions. It is chaired by the Secretary of the Treasury, and includes the Secretaries of State and Commerce, the Chairman of the Federal Reserve Board, and the Chairman of the Export-Import Bank, but most of its meetings are held at the senior staff level.

Perhaps of greater importance to our regular operations is the fact that at the weekly formal meetings of our Board, representatives of the Treasury and the Department of State are present to advise us;

and we are as well in constant touch, of course, with our Embassies and other missions abroad.

I am sure you know that these days the coordinating problems go well beyond the Washington agencies. We work closely with the International Bank and the Inter-American Development Bank. With the rehabilitation of Western Europe, those countries have increasingly resumed their former role as capital exporters; and the United States Government is constantly urging the stronger European countries to increase their capital exports so as to assume more of the immediate financial impact of helping the less-developed countries. For these efforts we are using a consortium approach under which international institutions, U.S. agencies, and foreign governments pool resources to aid in development. Examples are the creditor groups established to deal with the payment problems of the Argentine, a few years ago, and Brazil, more recently, and the consortia of lenders or potential lenders who meet from time to time to deal with the problems of the Indian and Pakistan development programs. Through such groups and their meetings, and without elaborate bureaucracy or secretariat, it is possible to get a confrontation of lenders and potential borrowers. These meetings have begun to produce greater understanding by all parties of their individual and mutual problems.

All in all, gentlemen, I hope you will be able to see that in a real sense even a prosaic bank deals with a facet of the cold war which is replete with complexities and, I might say, with some difficulties. But deal we must, for no one can doubt the crucial need to keep the U.S. competitive in world markets; nor can one doubt as well the crucial need effectively to counter Soviet efforts at economic penetration to obtain dependency. To respond correctly and imaginatively to the reality of this whole new world will test the fiber and ingenuity of the American industrial, banking, export, and insurance communities, as well as those of the Government. What will win in this competitive struggle is a heavy application of that initiative, inventive ability, and drive which made our country great in the first place.

It is an exciting time in which to live, for the battle of wits between the free world and the totalitarian power circles the globe--and as you know better than I, the heavens too--and in many of its implications it is as serious as is the field of battle. We at the Export-Import Bank feel this sense of urgency and excitement as we try to play our part. No doubt it is a less-dramatic part than that which you gentlemen here must play, but it is nonetheless, as I hope I have indicated to you, an

essential part and one oriented toward and grounded in our foreign economic policy and in the economic and the industrial aspects of the national security.

Thank you very much.

COLONEL BERGAMYER: Gentlemen, Mr. Linder is ready for your questions.

QUESTION: Sir, does the Export-Import Bank consider any non-bankable loans?

MR. LINDER: Well, you will have to define "bankable" for me. We don't consider loans which we consider can be done privately.

STUDENT: What about loans for the establishing of a school system or a port facility?

MR. LINDER: No. For port facilities we might, but not for a school system. We consider only loans of an economic nature, which presumably earn their way out--that is to say, they ought to represent a sufficient degree of productivity so, even if it can't be measured--as a port can't be measured accurately--you can be reasonably sure it makes enough of a contribution to that country's economy so that the income from it, directly or indirectly, and the addition to its gross national product, will be such that the country can afford to pay interest and amortization on the loan.

I don't want to imply that I am disparaging of education. The same thing might be said of education, but we have confined our activities to the other categories, that is, things that usually earn money.

QUESTION: Sir, what sort of interest rate did you charge on that loan to an automobile company in Japan last year, and does that Bank of Japan also charge interest on that loan? Will you mention something about the pressures that might be brought to bear for payment of the loan?

MR. LINDER: First, we have a standard project lending rate. If we varied the rate from country to country I think we would be in political difficulties. Our rate now is and for some time has been 5.75 percent. There are times when we funnel a loan through another financial institution, where we permit a step-up from our rate, so that that

financial institution at least can earn the expense of administering the loan. If we lend this money to, say, the Bank of Japan, and they in turn use a series of commercial banks scattered throughout Japan who have direct relation with the little manufacturer who needs to buy one machine tool, there will be costs incident to that. So there is a slight overage permitted. That overage may amount to 1, 2, or sometimes 3 percent.

Now, will you repeat the second question?

STUDENT: What pressures do you bring to bear on any bad debts?

MR. LINDER: I don't know that they should be termed pressures. Obviously, when we have normal commercial delinquencies, we have the usual followups that are normal in commercial affairs. That is to say, if people are delinquent you write them letters, you get in touch with them, you exercise your legal rights under a contract if it is necessary to do so--all of this in respect to private buyers. Remember that whenever possible we finance the purchasers of American goods, whether they are purchased by a government or a private firm--without a government guarantee. If there is a government guarantee we have relatively little difficulty collecting, because the government makes good, even though a private contractor or manufacturer is not able to make good.

In respect to governments, I think you can take it for granted that, unless we have a situation like Cuba, the only time we have a default is when there is obviously no ability whatever to pay, as is the case in Haiti and Bolivia at the moment. We have started negotiations with the Bolivians, and I think, maybe sometime within the next year, they will start repaying, or paying interest on some of their loans in default. But there just are not many dollars in Bolivia. They don't have reserve banks. There is nothing that you can do about that. The economy just isn't throwing off a sufficient number of dollars to permit the repayment.

QUESTION: Mr. Linder, would you say something about what your customers tell you about the 2 percent Russian loans they say they can get?

MR. LINDER: They don't tell us about them. We know about some of them. This is something they may say to our diplomatic people, but when they come to us they are coming to us with a pretty clear understanding of the kind of lending we do. Therefore, if we should be talking

to the Egyptians who, as you know, have gotten a number of loans from the Russians, we talk to them on our terms. The other aspect of the conversation is in your department, not in ours.

QUESTION: Mr. Linder, your bank, as you pointed out, has successfully lent money abroad and has been paid back. Do you think that your performance has stimulated American commercial banks to lend more abroad than they would had you not had this experience?

MR. LINDER: I think that without any question it has. One of the reasons for it is that there is a measure of protection to those commercial banks, quite frankly, in our existence. That is to say, they know that when the United States is lending to the same country or the same area there are presumably good relations with that country, and they know that we will be concerned with monitoring to some extent or at least using our diplomatic ability to influence, if you will, those governments in the direction of sound monetary policy. They know that we expect to be repaid, and there is a general aura of good business around the area, so that they are encouraged.

Moreover, there have been times when we have felt that it was in the national interest to bail the situation out. Those are the emergency trade development loans that I spoke about. The proceeds of those loans very frequently are used to pay debts which could not otherwise be paid.

They don't have any guarantee from us that we feel that the political and economic situation is such that we ought to come to the rescue, but not infrequently we have, and this gives them a certain assurance as well. I think those loans, as I tried to indicate, lubricate trade, which means banking on our part in the private area.

Frequently, as I also tried to indicate, they are helpful to us. That is to say, at the time we had difficulties in meeting a payment situation in Brazil, we got the establishment of credit of some $70 million by a series of New York banks, who were not in there. I mean, it was not a question of saving their own money. European banks, also private banks, put up $125 million. That was a consortium, which I referred to in my talk.

QUESTION: Mr. Linder, do you have any figures, or could you give us any idea of what percentage of the applications for loans you approve, either by number, as compared with what you have to do, or by dollars?

MR. LINDER: You mean, as compared to the number of applications we receive?

STUDENT: That's right.

MR. LINDER: No, I can't give you any accurate estimate, but it is a very large percentage. I'll tell you why. The bank has been operating for a long time. Applications, so-called, can come to us in various stages. They can be the gleam in a fellow's eye or they can actually be really well developed, with engineering reports, audited statements, and all the other necessary things to complete an application. Now, obviously, we don't approve every loan even where there is an adequate application before us. There are these whispers, if you will, these vague ideas of a promoter, who says, "I think that there is a lot of oil to be developed out of shale in Patagonia, and I know a man who knows a man who put up a lot of money there. Will you lend us $10 million?" The answer is, "When you get this thing worked up to a point where it is something tangible and can show us reasonable assurance that an equity position of $10 million will be underneath us, we will be glad to consider it."

If you want to call that an application, it is rejected. We don't hear from those things again. When the applications come in well documented, carefully engineered, adequately audited by responsible people, people who generally know what the criteria of the bank are, I would say a comparatively large percentage of those are approved. They may be altered somewhat. We may insist on more equity. We may insist on a limitation of dividends. We may insist on a whole variety of things in order to make the loan. And it may take months of negotiation. But, if they come in, as I say, via U.S. Steel or Westinghouse, or Coppers, they know pretty well what our standards are, and they don't waste their time or our time with crack-brained schemes.

I don't know whether that answers your question or not.

QUESTION: Sir, loans made on the basis of a present risk would be in countries that are well developed, thus furthering the fierce competition that you mentioned. This may or may not be good. Do you take any bad risks?

MR. LINDER: We lend money in well-developed countries as well. We lend much less in well-developed countries, obviously, because they have less need for it. This is not a reflection of an aid philosophy or a moral philosophy. It's just this. The Italians, who used to be an

excellent customer of the Export-Import Bank, have gotten on their own feet. As a matter of fact, we got a check from the Italians within the last 3 months for some $50-odd million. They cleaned up every cent they had borrowed from us. But we are still considering a couple of substantial loans, maybe $15 or $20 million to Italy today.

We financed a substantial addition to a French steel mill recently because they wanted certain types of American rolling equipment, and the seller wanted to give them reasonable terms. It was a perfectly normal and reasonable business for us to get into. I think the amount was about $5 million.

Generally speaking, the need for financial assistance on the part of the well-developed countries is relatively, substantially less than it used to be, and much less than it is in the case of the underdeveloped countries.

You remember my saying that "import" played a very little part in the activity of the Export-Import Bank. If you will visualize what happens in France as comparable to what happens here, you will see why we do very little business in France currently. They can pay cash, or they can borrow within their own country. Their francs are convertible into dollars. They may get a discount for paying cash. It doesn't pay them to pay the interest which we would charge in order to finance the transaction. The result is that comparatively rarely is there business going from the United States to France which needs our help.

QUESTION: Sir, I wonder if you will discuss a bit further the loans you make in foreign currencies, the source of your funds, and the purpose of these loans.

MR. LINDER: We make no loans in foreign currencies. Until recently we did make a few loans in foreign currencies. This activity, under the new legislation, was transferred to the AID organization, where we felt it logically belonged. We recommended this to the Administration.

Those funds, if you would like me to talk about them, were derived from what was called the Cooley amendment to P. L. 480. P. L. 480 was a provision in the Agricultural Trade Development and Assistance Act of 1954, as amended, which provided for the sale of agricultural commodities to certain countries on very long terms,

payment for which was to be made in local currency. That is to say, we sold X number of tons or bushels of wheat to India, and the Indians agreed to pay for that in rupees. This left a large amount of money in a kind of suspense account in India. The reason the Indians were able to pay for it was that they sold that wheat in their own economy for rupees. This reservoir of money, which became embarrassingly large to the United States as a whole, could be used for a variety of things, but those things did not exhaust it. It could be used for expenses of our missions abroad, for one thing. This represented a very small amount of money in relation to the amounts that accumulated in some of these places.

It could be used also, under this Cooley amendment, for two types of loans; one, loans to foreigners, either governments or individuals in foreign countries, who were engaged in businesses which had a presumption of ability to increase the export of American agricultural commodities. For example, we did make a loan--if I recall correctly--to a cottonseed oil crushing mill, let us say, on the assumption that this would stimulate the exportation of cottonseed, or cotton itself, to that country, and that country did all its cotton buying in this country. Under those circumstances we felt it met the statutory requirement.

The number of loans of that kind that we were able to make was obviously very limited. I suppose we could have loaned to a grain elevator, on the assumption that they would be able to buy more and more grain from the United States if they had storage facilities. And I imagine we did.

The other aspect of the Cooley amendment permitted us to lend money to any kind of operation in a foreign country in which an American firm or corporation or partnership or individual had a substantial interest. That is to say, if Goodyear Tire and Rubber was prepared to open a plant in India and Goodyear Tire and Rubber was prepared to, let's say, put $1 million into that plant, and let us assume that Goodyear Tire and Rubber needed another $2 million to buy American machinery, the Export-Import Bank in its normal business might have loaned that $2 million, on terms of 6, 7, or 8 years, for the purchase of the machinery. And then we might have loaned them a certain amount of rupees necessary to defray the local cost incident to the building of that plant. The second loan usually extended for a longer term than the first, and was usually subordinated to the first loan. One other requirement that the second loan had built into it was that the Indian Government had to approve it. This was true of every other government. At times it has been difficult to get those approvals.

This is a reservoir of money which does facilitate at times the movement of American firms into foreign markets or the movement of American manufacturing facilities into foreign markets.

Now these loans, as I say, are administered by AID. We have never made loans except in dollars, or where we were asked by the Congress to administer an activity which really had nothing to do with our act. That was what happened with these so-called Cooley loans. Congress decided this ought to be done, and they decided that the Export-Import Bank ought to make the loans. So we accepted the responsibility under their direction.

QUESTION: Mr. Linder, I would like to have you discuss further this question of markups on loans made through foreign national institutions. When you make these loans, do you limit the total markup which the foreign institutions, either singly or in a cascade, will be allowed to make?

MR. LINDER: Yes, we have a pretty clear understanding of what the markup will be. This isn't too frequent because, as I indicated to you, we have only four or five such loans outstanding. This is not a normal method of operation. It is a device which is an attempt on our part to penetrate more deeply into the economies of these countries so that a little fellow in, say, the Argentine, who has no facilities whatever for getting into contact with an American machine tool manufacturer, and whose general credit is not good enough, or who is not sufficiently well known so that a normal export transaction can take place between National Acme, let us say, and this little fellow in Cordoba, is able to go to his local bank, and the local bank will say, "Yes, we can arrange for buying the lathe." The way we arrange for it is, we will send an application in to the industrial bank, which is a Government bank, and which has a pool of money made available by the Export-Import Bank for this kind of purpose. The Cordoba bank will charge some sort of service fee, and the industrial bank has a step-up in the interest rate. Thus the money is provided.

That's the purpose. The purpose is to penetrate and help the little businessman. We do have a problem in other parts of the world, and maybe to some extent a problem in the United States, not to concentrate too heavily on big business, with a capital B.

COLONEL BERGAMYER: Mr. Linder, it is both ironical and with poetic justice that the Export-Import Bank, which was formed originally to assist the Soviet Union, has done so very much to help

the cause of the free world. On behalf of the Commandant, the faculty, and the students, thank you very much for your splendid lecture.

(24 July 1962--5,600)O'T/jc:ijk