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POSTWAR INTERNATIONAL
LENDING

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This essay, the eighth in the series published, on occasion, by the International Finance Section of the Department of Economics and Social Institutions in Princeton University, collates and comments upon hitherto scattered data of great significance.

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The author of the present essay, who was a member of the Economic and Financial Department of the League of Nations from 1936 to 1945, is now an economist of the Federal Reserve Bank of New York. The views here expressed are of course not to be presumed to reflect the attitude of the organization with which he is associated.

I. INTRODUCTION

AS a result of agreements concluded since the end of the war, there exists today an intricate but not fully integrated network of foreign lending. The aggregate of known postwar foreign credit lines extended up to 1947 is estimated in this study at 14 to 15 billion dollars. About three-fifths of these have been granted by the United States. More than half of the total credits have gone to the United Kingdom, and Continental Western Europe has received by far the largest part of the remainder. Because of the magnitude of this lending, and because of its implications for international economic policy, an attempt is made in this study to survey and critically appraise the structure so far erected.

A factual survey is made in § II. The order of magnitude, and the distribution of postwar foreign credits both by lenders and by borrowers, are there outlined; some principal features are pointed out; and a brief comparison is made with 1919-20. In § III the overall pattern of the new loan policies is examined in the light of the experience of the nineteen-twenties. § IV contains some concluding observations.

II. THE NETWORK OF POSTWAR INTERNATIONAL CREDITS

I. Magnitude of Postwar Foreign Lending

In order to show the magnitude of postwar foreign lending, the aggregates of the known foreign credit lines actually extended are given (in terms of United States dollars) in Table I.* The countries are arranged in order of the size of the credits granted.

The largest single item is the 3,750 million dollar loan by the United States to the United Kingdom. Because of its terms, and implications, it is the cornerstone of the whole structure of postwar indebtedness. Indeed, the fate of most foreign loans extended up to the time of ratification of the Anglo-American loan agreement in July 1946—not only those made by the United States, but also by Canada, Sweden, and other countries—has depended, in the last analysis, on the implementation of the American loan to the United Kingdom. The world has been very much aware of this situation. In Sweden, the former Minister of Commerce, Bertil Ohlin, had warned against any further commitments, "should it be found that financial cooperation with the United States cannot be established whereby Great Britain's interna-

* The table is based on data made public in the respective countries. Because of the difficulties involved in compiling and appraising the basic information, the aggregates shown, while accurate enough for purposes of general analysis, are tentative and subject to revision.

TABLE I
 KNOWN POSTWAR FOREIGN LENDING AS OF DECEMBER 1946
 (In millions of U.S. dollars)

<i>Extended by</i>	
<i>United States:</i>	
Loan to the United Kingdom	3,750
Export-Import Bank loans	2,300
Lend-lease credits (approximate)	1,400
Surplus-property credits (approximate)	1,100
U.S. Maritime Commission ship sales credits	200
Private lending (including "new financing" through dollar bond issues)	100
Federal Reserve System credit to the Netherlands	100
Reconstruction Finance Corporation loan to the Philippines	75
Total (approximate)	9,000
<i>Canada:</i>	
Credits under the Export Credits Insurance Act	750
Loan to the United Kingdom	1,250
Total	2,000
<i>Sweden:</i>	
Outright credits	550
Sterling-balance holdings	150-175
Total (approximate)	700-725
<i>United Kingdom:</i>	
French sterling debt	400
Other (approximate)	300
Total (approximate)	700
<i>Argentina:</i>	
Outright credits	400
Sterling-balance holdings (approximate)	200
Total (approximate)	600
<i>Switzerland:</i>	
Outright credits	150
Sterling-balance holdings	60
Total (approximate)	210
<i>Other:</i>	
Increase in sterling-balance holdings, other than Swedish, Argentine, and Swiss (approximate)	1,200
Other credits and foreign-exchange-balance holdings	200-300
Total (approximate)	1,400-1,500
GRAND TOTAL (approximate)	14,500

tional liquidity would be restored, thus laying a foundation for the cooperation planned at Bretton Woods";¹ and the Canadian loan to the United Kingdom was made subject to renegotiation in the event of the American credit being refused.

The second largest component of the United States' lending consists of Export-Import Bank loans which, from July 1, 1945 to December 31, 1946, totaled 2,300 million dollars. France, by far the largest recipient of Export-Import Bank aid, received 1,200 million dollars, or more than one-third of the Bank's total resources. The Bank also extended loans of 300 million dollars to the Netherlands, 100 million to Belgium, and lesser sums to a number of European countries.² Outside Europe, a 100 million dollar loan was authorized for the Netherlands East Indies,³ 67 million for China, and 25 million for Saudi Arabia. South America received less than 100 million dollars. Of the Bank's statutory lending authority of 3,500 million dollars, only 920 million remained uncommitted in December 1946; and, out of these available resources, a 500 million dollar loan to China and a 100 million dollar loan to Italy have already been approved "in principle." The former is contingent upon the establishment of a unified government in China, and the latter upon stability in Italy and the ability of Italy to provide for (other) imports essential to the maintenance of its economy.

Lend-lease credits are given, in Table I, at approximately 1,400 million dollars. Most of these credits were granted by the United States Government to enable foreign countries to buy, after the termination of lend-lease on September 2, 1945, the non-military supplies and services that originally were to have been transferred as lend-lease; in a few cases these credits were extended in application of lend-lease 3(c) agreements that had been negotiated before the close of the war. Part of the goods covered by the credits were already held in lend-lease inventories abroad but most of them consisted of orders to be completed and shipped over a period of months.⁴ Apart from the lend-lease credits, facilities were granted for the acquisition by the foreign governments of United States surplus property abroad, such credits being separately estimated, in Table I, at about 1,100 million dollars. Finally,

¹ The Quarterly Review of the *Skandinaviska Banken*, October 1945, page 85.

² Of these Norway received 50 million, Poland 40 million, Finland 35 million, Turkey 28 million, Greece 25 million. A further 100 million dollar credit has been provided to European countries for the purchase of American cotton; of this, 25 million went to Italy, 20 million to Czechoslovakia, and 5 million to Finland.

³ The credit is to be guaranteed by the Kingdom of the Netherlands; however, pending the settlement of the political status of the Indies, it has not yet been formalized in an agreement.

⁴ Among the lend-lease settlement agreements, those providing for credits of 650 million dollars to the United Kingdom and 720 million to France are the most important. The British agreement included 60 million dollars, and the French 300 million dollars, for the purchase of surplus property.

the U.S. Maritime Commission, under the provisions of the Merchant Ships Sales Act of 1946, extended credits totaling 200 million dollars for sales to foreign countries of surplus war-built ships, such credits to be secured by a mortgage on the vessels.

Private loans so far reported have been all but negligible. The largest private credit was the 100 million dollar accommodation granted, in February 1945, to the Netherlands Government by a group of New York banks. In May 1946 this credit was repaid with the proceeds of a loan against gold collateral obtained by the Nederlandsche Bank from the Federal Reserve System. A revolving credit of 16 million dollars in favor of the Norwegian central bank was authorized, in March 1945, by a syndicate of New York commercial banks. It became effective in July 1946. Apart from short-term loans extended in the normal course of business, the bulk of private financing has consisted of commercial bank participations in Export-Import Bank loans. Issues of foreign securities in the American capital market, and direct investments abroad, have so far been conspicuous by their absence.

Prewar stabilization agreements between the United States on the one hand and Mexico and Brazil on the other, renewed in July 1942 and June 1945 respectively, under which the United States Stabilization Fund undertook to purchase Mexican pesos (up to 40 million dollars) and Brazilian cruzeiros (up to 200 million dollars) for the purpose of stabilizing the exchange rates of the two countries, are not shown in Table I. Neither Mexico nor Brazil have drawn upon these credits to the present. The agreements nevertheless represent potential lines of credit which have to be taken into account in determining the aggregate of United States foreign lending.

Most of the loans made by the United States were in the form of a "line of credit" upon which the foreign borrowers may draw at any time between the effective date of agreement and a final date fixed in the agreement (such as 1951 in the case of the British loan, and 1947 or 1948 in that of the reconstruction credits of the Export-Import Bank). Up to the end of 1946, cash disbursements had amounted to about 4 billion dollars of the 9 billion extended. Of the lend-lease credits, 1.2 billion had been disbursed; of the surplus property credits, 800 million; of the Export-Import Bank loans, 1.1 billion;⁵ and of the loan to the United Kingdom, 600 million (and an additional 200 million in January 1947).

Apart from the United States, the largest postwar lenders have been Canada, Sweden, Argentina, and Switzerland. The Canadian Government has extended credits to foreign governments and agencies

⁵ Including portions of the credit authorized before June 30, 1945, and utilized during the period July 1, 1945-December 31, 1946.

under the Export Credits Insurance Act of 1944, as amended in January 1946. Of the 750 million dollar lending authority, 644 million had been committed up to the end of May 1946.⁶ Outside the scope of the Export Credits Insurance Act, a credit of 1,250 million dollars has been granted to the United Kingdom. The British are reportedly using their Canadian credit much more rapidly than their American credit; and France has nearly exhausted her Canadian loan.

The foreign lending of Sweden, Switzerland, Great Britain, and some other countries consists partly of outright loans, partly of reciprocal overdraft facilities extended through payments agreements. Some thirty such agreements have been concluded so far, providing for facilities aggregating the equivalent of 1,300 million dollars.⁷ In actual practice, however, amounts drawn are offset against each other so that only one partner utilizes the overdraft; the amount actually available is, therefore, less than one-half of the total arranged.

The accommodations extended by Sweden consist of the approximate equivalent of 550 million dollars of outright loans,⁸ including the 278 million dollar loan to the U.S.S.R. which entered into effect in December 1946,⁹ plus the equivalent of over 150 million dollars in sterling balances actually accumulated by Sweden or still to accrue under the terms of payment agreements with the United Kingdom.¹⁰ The Swedish credits, with the exception of that to the Soviet Union, have probably been largely used up.

Argentina has emerged as the fourth largest postwar lender. Apart from the increase in her sterling holdings, which is estimated at the equivalent of between 160 and 240 million dollars for the eighteen months following the end of the war in Europe, Argentina has extended outright credits totaling the equivalent of over 400 million dollars.¹¹ Argentina is the only country which has extended large credits

⁶ Of which 242 million dollars were to France, 125 million to the Netherlands, 100 million to Belgium, 60 million to China, 30 million to Norway, 19 million to Czechoslovakia, 15 million to the Netherlands East Indies, and 3 million to the U.S.S.R.

⁷ Cf. Bank for International Settlements, *Sixteenth Annual Report*, July 1946, p. 54.

⁸ Of which 278 million were to the U.S.S.R.; 81 million to Norway; 59 million to Finland; 33 million to Denmark; 28 million to Belgium; a like amount to Poland; 21 million to the Netherlands; 13 million to France; 7 million to Czechoslovakia.

⁹ The negotiation of the agreement gave rise to a sharp diplomatic controversy between the United States on the one side and Sweden and the Soviet Union on the other. (See below page 24).

¹⁰ About four-fifths of the amount given above is stated by Swedish unofficial sources to have been actually acquired by July 1946.

¹¹ Of which the equivalent of 150 million dollars went to France (113 million having been extended in December 1946); 125 million dollars to Spain (consisting of a revolving credit of 350 million Argentine pesos and of a long-term loan of 400 million, but, as part of the proceeds of these credits are to be used for refinancing existing Spanish obligations, Spain appears to receive actually only some 500 million

to Spain (large, that is, in absolute terms) and to Latin America (large in terms of Argentine resources).

As to Switzerland, the monetary and other credits actually extended amount to the equivalent of 210 million dollars.¹² The French and Dutch credits were largely exhausted in July 1946; but those to Great Britain and Belgium were used mostly to finance tourist expenditures and other invisible exports of Switzerland, and, of the total credits extended, about half had reportedly been drawn upon by the end of 1946.

The United Kingdom is both a postwar creditor and a postwar debtor. The considerable sum given in Table I for British credits to other countries consists largely of the 100 million pound French sterling debt, accumulated as a result of the French balance of payments deficit *vis-à-vis* the sterling area, which was funded in December 1946.¹³ The rest of the British foreign lending consists of the overdrafts outstanding in Britain's favor in application of the Anglo-Danish monetary agreement (reportedly over 25 million pounds sterling) and of the Anglo-Belgian monetary agreement (reportedly 10 million pounds sterling), of monetary, commercial, and surplus property credits to Greece, Czechoslovakia, Austria, and Poland,¹⁴ and of commercial bank revolving credits to French, Czechoslovak, and Austrian commercial banks.¹⁵ On the other hand, the United Kingdom has been the recipient of monetary credits extended through accumulation of sterling by foreign countries. Apart from the Swedish, Swiss, and Argentine sterling holdings, to which reference has already been made,

pesos in new funds); 100 million dollars to Chile (consisting of a 100 million peso revolving fund and a 300 million peso development loan); 37 million to each of Belgium and Czechoslovakia.

¹² Of which the equivalent of 82 million dollars went to France (including an 11 million private revolving credit to a group of French banks); 60 million to the United Kingdom; 27 million to the Netherlands; 18 million to Rumania against gold; 11 million to Poland; 5 million to Belgium; 2 million to Czechoslovakia and Hungary; and 1 million to Norway. An agreement providing for an 18 million dollar credit to Italy was suspended because of the veto of the Allied Control Commission.

¹³ At the expiration of the Anglo-French postwar payments agreement in February 1946, France was indebted to the United Kingdom to the amount of 150 million pounds sterling. This debt was reduced to 100 million by a gold transfer of 50 million and was to be paid for by liquidation of French-owned sterling securities. An agreement concluded on December 3, 1946 provided for the consolidation of this debt, with repayment to be made between 1950 and 1961.

¹⁴ Greece obtained a stabilization loan of 10 million pounds sterling; Czechoslovakia a government credit of 5 million pounds sterling, a monetary overdraft of 1 million, and a surplus property credit of 2.5 million; Austria a surplus property credit of 10 million pounds sterling; and Poland a surplus property credit of 6 million pounds sterling.

¹⁵ One million pounds sterling to French and Czechoslovak banks respectively and 1.5 million pounds sterling to Austrian banks. An additional 12.5 million pound revolving credit was extended in January 1947 by a London bank to a French group to finance the import of wool.

the increase in sterling balances may be roughly estimated at 300 million pounds sterling in the period from July 1945 to December 1946,¹⁶ the rate of foreign accumulation of sterling balances having slowed down considerably since the end of the war.

Apart from the principal creditor countries, a world-embracing survey of postwar indebtedness would cover commercial credits extended by South American countries other than Argentina to Continental Western Europe;¹⁷ reciprocal overdrafts extended by Continental Western European countries *inter se*;¹⁸ and the picturesque mosaic of such miscellaneous lending as that of Sweden to Ethiopia, India to Siam, Egypt to Czechoslovakia, Australia to the Netherlands Indies, and so forth. For the sake of brevity, an allowance for such credit accommodations is made at the bottom of Table I.

2. Distribution of Postwar Foreign Borrowing

The distribution of the postwar foreign indebtedness is shown, by debtor countries, in Table II. The recipient countries are shown by broad geographical groups and, within each group, in the order of magnitude of the credit lines actually extended to them. As may be seen from the table, 7,250 million dollars of the aggregate credits of

TABLE II

KNOWN POSTWAR FOREIGN INDEBTEDNESS AS OF DECEMBER 1946

(In millions of U.S. dollars)

<i>Incurring by</i>		
<i>United Kingdom:</i>		7,250
<i>Continental Western Europe:</i>		
France	2,900	
Netherlands	700	
Belgium	320	
Norway	210	
Denmark	150	
	<hr/>	
Total (approximate)		4,300

¹⁶ By computing sterling-balance holdings of principal sterling area countries, it would seem that the increase between June 1945 and December 1946 amounted to about 300 million pounds (of which India acquired 100 million, Egypt 70 million, Australia 60 million, New Zealand 27 million, Eire 12 million, etc.).

¹⁷ Brazil has supplied the equivalent of 25 million dollars to France, 20 million to Czechoslovakia, and 10 million to Finland; Uruguay has lent 2 million to France; Mexico 5 million to Czechoslovakia, etc.

¹⁸ More particularly, the Netherlands negotiated an extensive network of reciprocal overdraft agreements with countries such as Belgium, Portugal, Norway, and France.

Central and Eastern Europe:

U.S.S.R.	556
Czechoslovakia	200
Poland	150
Finland	140
Austria	56
Rumania	18
Hungary	17

Total (approximate)

1,100

Mediterranean Europe:

Italy	210
Spain	125
Greece	110
Turkey	38

Total (approximate)

500

Asia:

China	282
Netherlands East Indies	215
Philippines	75
Saudi Arabia	27
Korea	25

Total (approximate)

650

Latin America:

Chile	147
Brazil	60
Other	10
"American Republics" (U.S. lend-lease credits)	100

Total

317

Africa:

Liberia	19
Ethiopia	6

Total

25

Oceania:

Australia	7
New Zealand	6

Total

13

Unassigned credits (approximate)

300

GRAND TOTAL (approximate)

14,500

For reasons stated in the note to Table I, some of the aggregates shown are tentative and subject to revision.

approximately 14,500 million have gone to the United Kingdom, and, of the remainder, over 4,000 million dollars have gone to Continental Western Europe, largely France. The United Kingdom, France, the Low Countries, and the Scandinavian countries together account for about 11,500 million. The bulk of the remainder is distributed among Central and Eastern Europe (including the U.S.S.R.), Mediterranean Europe, and Asia. United States and Argentine loans to Latin America, totaling over 300 million dollars, are negligible in the over-all aggregate.

The composition of the aggregates given, in Table II, for Western Europe is shown in Table III. The creditor countries are listed under the name of each borrowing country in the order of the size of the amounts received from them. The listed countries, it will be noted, re-

TABLE III

COMPOSITION OF THE KNOWN POSTWAR FOREIGN INDEBTEDNESS OF WESTERN EUROPE

(In millions of U.S. dollars)

<i>United Kingdom</i>		<i>Netherlands</i>	
United States	4,400	United States	510
Canada	1,250	Canada	125
Argentina	160-240	Switzerland	27
Sweden	150-175	Sweden	21
Switzerland	60		
Sterling balances other than Argentine, Swedish, and Swiss	1,200		
Total (approximate)	7,250	Total (approximate)	700
<i>France</i>		<i>Belgium</i>	
United States	1,964	United States	110
United Kingdom	400	Canada	100
Canada	242	United Kingdom	40
Argentina	150	Argentina	37
Switzerland	82	Sweden	28
Brazil	25	Switzerland	5
Sweden	13		
Total (approximate)	2,900	Total	320

The totals, which include allowances for borrowing from other sources, are tentative and subject to revision.

ceived the largest part of their accommodations from the United States, while Canada is the second largest lender to Western Europe (if we disregard the special case of the French sterling debt).

As for the other debtors, the aggregates shown in Table II require little comment.¹⁹ Among the remaining Western European countries, Norway obtained about one half of her credits in the United States, and the remainder in Sweden and Canada. Two-thirds of Denmark's indebtedness consists of sterling debt, and the remainder of Swedish and United States credits.

Central and Eastern European countries obtained about half of their accommodations from the United States; Sweden and the United Kingdom supplied by far the largest part of the remainder. The Soviet Union received in October 1945 a line of credit of 275 million dollars from the United States to finance lend-lease supplies after the termination of lend-lease; and, in November 1946, 278 million dollars from Sweden. Among other Central and Eastern European countries, Czechoslovakia obtained the largest credits. These originated from such manifold sources as the United States,²⁰ the United Kingdom, Argentina, Canada, Sweden, Brazil, Mexico, Egypt, and Switzerland. Poland received its credits from the United States, Sweden, the United Kingdom, and Switzerland; Finland from Sweden, the United States, Brazil, and the Union of South Africa; Austria from the United Kingdom and the United States (surplus property); Rumania from Switzerland (against gold); and Hungary from the United States (surplus property) and Switzerland. As to Germany, mention may be made of the funds which the Reconstruction Finance Corporation has been advancing, for the purpose of financing imports of raw materials, to the Military Government in the American Zone of Occupation. These currently amount to about 2 million dollars but may eventually reach a total of 60 million dollars.

The postwar indebtedness of Italy consists of American surplus property, and Export-Import Bank cotton, credits (apart from the conditional 100 million dollar credit granted, "in principle," in January 1947); that of Turkey of Export-Import Bank credits; and that of Greece of United Kingdom Government and United States Export-Import Bank loans. Spain obtained a credit from Argentina.

Credits obtained by China and the Netherlands East Indies originated in the United States and Canada; an additional 500 million dollar loan to China has been approved "in principle" by the Export-Import Bank. The 75 million dollar loan to the Philippines, to be extended

¹⁹ For the sake of brevity, actual figures showing the composition of the foreign borrowing by individual countries are not repeated here, as they may be found either in the text or in the footnotes on pages 3-6.

²⁰ Forty million out of a 50 million dollar surplus property credit, however, was cancelled in October 1946, so that Czechoslovakia obtained only a 10 million surplus property credit and 22 million in Export-Import Bank cotton and tobacco loans. Negotiations were suspended for an additional 50 million Export-Import Bank loan.

by the Reconstruction Finance Corporation under an authorization of Congress, is a unique example of a budgetary loan granted with a view to easing the deficit problem of the Philippine Government.

The indebtedness shown, in Table II, for Latin America originated in the United States with the exception of a 100 million dollar loan from Argentina to Chile.

3. *Governmental Character of the Credits*

The postwar credits are largely governmental in character, *i.e.* they have been granted by one government to another, or by banks to foreign governments. Credit accommodations extended by commercial banks, public flotations of foreign securities, and new "direct investment" abroad have, as already noted, furnished only an insignificant share, a circumstance that largely reflects the risks inherent in the unsettled political and economic conditions since the end of the war.

In Canada, Sweden, and Argentina, all postwar credits were extended directly by the Treasury to foreign governments. In the United States, the loan to Great Britain and the lend-lease and surplus property credits are likewise almost exclusively governmental.²¹ As to the loans extended by the Export-Import Bank, "an independent agency of the government,"²² it may be said that their purely governmental character is slightly assuaged by the arrangements under which commercial banks purchase notes from borrowers, or from the Export-Import Bank, with an undertaking by the Export-Import Bank to repurchase them on demand. As of June 1946, 125 million dollars, out of total Export-Import Bank "commercially bankable" paper of 727 million dollars, were held by commercial banks. An opportunity was afforded to commercial banks to participate in a loan which the Export-Import Bank extended to the Netherlands in May 1946; about one-half of the 200 million dollar loan was subscribed by some 50 American commercial banks without recourse to, or guarantee by, the Export-Import Bank. It should be noted that this loan is a short-term credit, with one half of the principal due within one year and the remainder within two years. Commercial bank participation has also been arranged in several other recent and smaller credits.

The Swiss commercial banks have participated to a somewhat larger extent in loans to foreign governments. This financing, however, is made either under the Swiss Government's guarantee²³ or against gold

²¹ Some surplus property credits were extended to foreign private concerns.

²² The bank's capital of 1 billion dollars is subscribed by the United States Government; over and above this, the bank may borrow from the United States Treasury up to two and one half times the amount of the initial capital, so that it has at present at its disposal 3.5 billion dollars.

²³ Of the 50 million franc loan extended by Swiss banks to the Netherlands Government 85 per cent is guaranteed by the Swiss Government; and an additional 40

collateral,²⁴ so that the loans have not much of a commercial character. The outright loans to France and the monetary credit to the United Kingdom under the payment agreement have been extended exclusively by the Swiss Government.

Apart from these publicly-announced transactions, commercial banks have also resumed financing foreign trade by credit lines of the normal prewar type. In London, "modest amounts" of import and shipping bills have begun to appear; and London banks have extended short-term credits for financing international trade in raw materials to French, Czechoslovak, and Austrian commercial banks (in the last two cases under the guarantee of the national banks of the two countries). The first of these transactions was commented upon as "so far the most substantial and striking of its kind."²⁵

4. Comparison with 1919-20

In 1919 and 1920, as in 1945 and 1946, intergovernmental loans were the main vehicle of foreign lending, and by far the largest part of the lending went to Europe. For purposes of comparison Table IV outlines the network of foreign loans extended in 1919 and 1920 by the United States to Europe, and by European countries *inter se*.²⁶

The bulk of post-armistice loans after World War I was provided by the United States. About two-thirds of the aggregate were furnished under the authority of the wartime Liberty Loan Acts, and the remainder under special legislation by United States Government Agencies such as the United States Grain Corporation and the American Relief Administration. Furthermore, in January 1920, the United States War Finance Corporation was authorized to grant credits to American exporters for a period not exceeding five years. In the next few months it arranged a number of large credits for the export of raw materials and machinery, but, in May 1920, its activities were interrupted by a ruling of the Secretary of the Treasury to the effect that the United States Government should cease extending credits for stimulation of exports. Since the governments of the importing coun-

million credit to the Dutch Government for "specially long-term orders" is likewise guaranteed "to a substantial extent" (Swiss Bank Corporation, Bulletin, July 1946, page 34).

²⁴ The credit extended to the Government of Rumania is covered by gold deposited in Switzerland by the National Bank of Rumania.

²⁵ *The Economist*, March 30, 1946, p. 503.

²⁶ In this brief historical survey, extensive use is made of statistics compiled by the League of Nations. For a contemporary record of foreign lending extended by the United States, and of the American balance of payments, reference should be made to the pioneer studies by John H. Williams published in the *Harvard Review of Economic Statistics* in 1919 and 1920 ("The Future of our Foreign Trade—a Study of our International Balance in 1919" and "The Balance of International Payments of the United States for the Year 1920").

TABLE IV
INTERGOVERNMENTAL LOANS IN 1919-20
(In millions of U.S. dollars)

<i>Extended by</i>	<i>Total</i>	<i>For Relief</i>	<i>For Other Purposes</i>
United States:			
Treasury cash advances	1,781 ^a	298	1,483
Loans by the U.S. Grain Corporation and the American Relief Administration	142	142	—
Loans by the U.S. Liquidation Commission	598	378	220
Loans by the War Finance Corporation	39	—	39
	<hr/>	<hr/>	<hr/>
Total	2,560 ^a	818	1,742
United Kingdom ^b	742	91	651
France	268	20	248
Netherlands	139 ^c	14	125 ^c
Norway	55	55	—
Italy	32	22	10
Canada	5	5	—
Switzerland	5	5	—
Sweden	1	1	—
Denmark	1	1	—
	<hr/>	<hr/>	<hr/>
Total	3,808	1,032	2,776

^a In addition to the 1,781 million dollars representing cash advances in 1919 and 1920, 389 million dollars were granted in December 1918. As to the use made of the advances by recipient countries reference should be made to the *Annual Report of the Secretary of the Treasury* for the Fiscal Year ended June 30, 1920, pages 345-348.

^b From April 1919 to March 1921.

^c Of which 115 million dollars were granted in 1921 to Germany (about 46 million having actually been utilized by 1924).

tries usually guaranteed the credits granted by the War Finance Corporation, these credits are shown with intergovernmental loans in Table IV.

Apart from the United States, intergovernmental loans were extended almost entirely by the United Kingdom and France; the participation of neutral countries, even in strictly relief loans, was very small indeed.

There was no substantial net import of long-term capital into Europe on account of loans raised abroad other than intergovernmental loans. Capital issues in the United Kingdom for the account of the Continent were negligible; capital issues in the United States for the account of Europe in 1919-20 were almost completely offset by the repayment of loans falling due.

On the other hand, sizable movements of short-term capital took place at the close of the First World War. From such information as is available,²⁷ it would seem that the outflow of short-term capital from the United States between the end of 1918 and the middle of 1921 was about 1.7 billion dollars. From the British balance of payments statistics it may be inferred that, of these amounts, about 300 million dollars went to the United Kingdom. As to the remainder, which appears to have gone to Continental Europe, a large part of the currencies obtained in exchange seem in turn to have been converted into sterling. Because of this widespread practice, the London market came to hold large amounts of Continental currencies and, for a considerable time, it bought more of these in order to protect the exchange value of its holdings.²⁸

In the aggregate, therefore, foreign lending extended by the United States to Europe and by European countries *inter se* in 1919 and 1920 ran perhaps to five or six billion dollars. To an even greater extent than after the cessation of hostilities in 1945, this lending originated in the United States. Intergovernmental credits ceased to be available, with a few exceptions, in the second half of 1919 and, as a result, European governments had to use their gold and foreign exchange reserves or obtain private credits. Private credits, however, consisted almost exclusively of short-term accommodations, with the result that the post-armistice indebtedness was fundamentally unstable and unsound.²⁹

Then, as now, most of the foreign lending was directed almost exclusively to the countries of Western and Northern Europe. The lack of financial and political stability in Central and Southeastern Europe was clearly the reason for the American unwillingness to grant long-term loans to countries in this area. Central and Southeastern Europe obtained financial aid only after 1924.

The terms of the post-war loans were affected by the settlements which the creditors negotiated with the debtors in the twenties. In the United States' settlements, no distinction whatever was made between war loans and the relief and reconstruction credits, both categories

²⁷ Cf. *Federal Reserve Bulletin*, December 1921, page 1400; United States Department of Commerce, *Trade Information Bulletin*, No. 144.

²⁸ Cf. B. M. Anderson, Jr., *Chase Economic Bulletin*, Volume 1, No. 1, October 1920.

²⁹ Cf. John H. Williams, *op. cit.*, *Review of Economic Statistics*, 1920, page 209: "Our balance of payments down to the beginning of this year shows a balance of unfunded indebtedness of Europe to this country. . . . That the financing of our exports by short time bank credits is an unsound and temporary makeshift is generally recognized. One of our most urgent problems must be to relieve the banks of this burden and provide a sound and permanent basis for a large and beneficial foreign trade."

being officially regarded as commercial obligations. In contrast, Great Britain and France followed the policy of treating these two sets of obligations separately; in the French phraseology war debts were "political," relief and reconstruction credits "commercial."³⁰

III. PATTERN OF POSTWAR INTERNATIONAL INDEBTEDNESS

The structure of international credits for relief and reconstruction erected after the First World War collapsed in the thirties. Is the new pattern of international indebtedness, with the supporting Bretton Woods arrangements, more likely to succeed?

1. *Separation from War Debts*

Undoubtedly, the interwar mistake of letting the war debts weigh very heavily on reconstruction has not been repeated. The new indebtedness is not, like the earlier, a consolidation of war debts. The treatment of Lend-lease and Mutual Aid have averted the assumption of a huge deadweight burden; and, more particularly, the new American lending has been associated with a final waiver of claims with respect to all lend-lease supplies that had been used in the course of the war "for the defense of the United States." The so-called lend-lease credits are entirely devoted to supplies received by foreign countries, through the lend-lease machinery, for consumption or use after the end of hostilities. In contrast to the 10 billion dollars loaned by the United States Government during World War I, American long-term government foreign credits outstanding at the close of hostilities in 1945 (excluding World War I loans) consisted only of two loans aggregating 751 million dollars. The first of these comprised 485 million dollars disbursed to China, against the 1942 Congressional authorization of 500 million dollars of financial aid to that country, on which settlement terms were to be considered after the war, while the second consisted of 266 million dollars representing the outstanding balance of a pre-Pearl Harbor Reconstruction Finance Corporation loan of 390 million dollars to the United Kingdom for the purchase of war supplies. In the whole structure of the present international indebtedness, the 3 billion pound sterling debt incurred by the United Kingdom in the course of the war is the most serious direct legacy of the conflict and this debt is not to the United States.

2. *Alleviation of the Interest Burden*

In contrast to the foreign lending after the First World War, the present interest burden on the debtor countries is relatively light. In

³⁰ For the history of debt settlements, see Harold G. Moulton and Leo Pasvolsky, *War Debts and World Prosperity* (The Brookings Institution, Washington, 1932).

1919 and 1920, interest rates on intergovernmental relief and reconstruction loans were 5-6 per cent;³¹ as to capital issues raised by foreign governments and agencies in New York and elsewhere, the rates exacted were particularly high, nominal interest ranging from 6 to 8 per cent, with the effective yield, at offering prices, even higher. Such rates constituted a burden on the balance of payments of the debtor countries that proved impossible to carry when the world depression struck.

This time, again, fixed interest bearing loans are the main vehicle of financial aid, but rates of interest are very much lower. It is true that only the British stabilization loan to Greece, and the Swedish loans to Norway and Denmark for financing relief to refugees, are entirely free of interest. During the first three years, moreover, no interest is to be paid on the Swedish loan to the Soviet Union. As to the American and Canadian loans to Great Britain, no interest is charged for the first six years; thereafter, the interest may be waived, partially or totally, at Britain's request in any year in which Britain's income from exports and net invisible items during the preceding five years is less than the annual value of 1936-38 imports after correction for price changes.³² In order to avail itself of the waiver, however, the United Kingdom would have to determine that a waiver was "necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves." The waiver clause applies only to interest; but in the earlier years interest comprises by far the larger part of the total annuity. The importance of the clause transcends the Anglo-American agreement since it sets up a precedent for the relations of England with British Empire countries.³³

Balances accumulating in foreign currencies as a result of the European payments agreements likewise do not bear interest. In actual prac-

³¹ The funding agreements concluded in the twenties provided for reductions in the rate of interest. On American credits the interest rate, originally stipulated at 5 per cent, was recalculated at $4\frac{1}{4}$ per cent up to December 1922 and, on the amount of debt so obtained, it was fixed at 3 or $3\frac{1}{2}$ per cent; on the British relief, reconstruction, and other postwar credits the interest rate was reduced from 6 to 5 per cent; and on credits extended through the International Relief Credits Committee, likewise from 6 to 5 per cent.

³² In his speech in the House of Lords on December 18, 1945, Lord Keynes intimated, however, that he would have preferred an interest-free loan: "On the matter of interest, I shall never so long as I live cease to regret that this is not an interest-free loan. The charging of interest is out of tune with the underlying realities. . . . But there it is. On no possible ground can we claim as of right a gesture so unprecedented."

³³ The Anglo-American agreement provides that the amount of interest due will not be waived in any year unless interest payments are also waived on other obligations of England incurred during the period from December 1945 to the end of 1951 and unless payments on accumulated sterling balances in the hands of foreigners are correspondingly reduced.

tice, however, the currencies taken over, whenever they attain a specific limit, are invested in the debtor's Treasury bills or other securities and then bear interest varying according to circumstances. The British monetary agreements with Continental Western Europe stipulate that the currencies held by the creditor central bank may be invested only as may be agreed by the debtor central bank. Specific interest charges have, however, been fixed on the French postwar debt to Great Britain, funded in December 1946. France agreed to pay one-half-of-1-per-cent interest. This is a second instance of a new low in interest rates on such credits, the first having been an agreement with Argentina under which Great Britain undertook to pay one-half-of-1-per-cent interest on Argentina's sterling balances, which are to remain blocked until 1950.

Payment agreements concluded by Continental Western European countries *inter se* set higher interest rate standards. As a rule, they contain provisions that, above certain limits, outstanding balances shall bear interest at the current rate; should the agreement be denounced, the final credit balance is to be converted, by the debtor country in the currency of the creditor country, into Treasury bills (bearing, for example, 3 per cent interest) to be amortized within a specific period (such as five years).³⁴

The rates of interest on outright credits for long and intermediate terms vary according to borrowers and types of loans; but, in spite of the large measure of variety, the postwar interest rate structure is uniform in its broad aspects. The most outstanding example of uniformity is the interest rate structure of the Export-Import Bank, the rate charged on each type of loan being uniform for all foreign governments. The Bank's general rate of interest on twenty to thirty year loans to foreign governments for reconstruction is 3 per cent;³⁵ on long-term development loans to, or guaranteed by, foreign governments the rate, which was 4 per cent, is now $3\frac{1}{2}$ per cent; on "lend-lease" credits for 30 years the rate is $2\frac{3}{8}$ per cent;³⁶ on cotton credits

³⁴ Provisions of this sort are embodied in the Belgo-Dutch, Dutch-Norwegian, Dutch-Swedish, Belgo-Swedish, and other agreements. An alternative provision may be found in the Franco-Swiss financial agreement under which, whenever the credit balance of the Swiss National Bank at the Bank of France reaches 50 million French francs, the Swiss National Bank is at liberty to acquire, by debit to this account, French Treasury bills to be held at the Bank of France. All or part of these balances are to be repurchased on current terms by the Bank of France at any time at the request of the National Bank of Switzerland and, if only three months at most remain before maturity, they are to be rediscounted by the Bank of France at the official rate.

³⁵ Since the Export-Import Bank usually arranges serial maturities for long-term loans, an average rate of 3 per cent on recent loans has been achieved in practice by varying the rate applicable to the different maturities.

³⁶ These are credits extended to France, Belgium, and the Netherlands to finance the purchase of products and services requisitioned under earlier lend-lease arrange-

it is $2\frac{1}{2}$ per cent for 15 to 24 months; and on the 200 million dollar short-term loan to the Netherlands, maturing one half within one year and the other half within two years, it is $2\frac{3}{4}$ per cent. The arrangements concluded by the United States Government for lend-lease³⁷ and surplus-property credits likewise carry a uniform rate of interest of $2\frac{3}{8}$ per cent for 30 years, with the exception of the British and French credits which bear 2 per cent interest. The 3.75 billion dollar loan to Great Britain, repayable in 50 years beginning 1951, also carries 2 per cent interest from that date.

The interest rates on the Canadian loans other than to Great Britain range between $2\frac{1}{4}$ and 3 per cent according to maturities, but on the loan to the United Kingdom the rate is 2 per cent only. The Swedish commercial loans bear interest at 3 or $3\frac{1}{2}$ per cent, that to the Soviet Union carrying 3 per cent for 15 years. The British credit to Czechoslovakia bears $2\frac{1}{4}$ per cent for 8 years. The Swiss commercial-bank long-term credits contain terms ranging from 3 to 4 per cent; for instance, $3\frac{3}{4}$ per cent is charged on the 15-year loans to the Netherlands. The Argentine three-year revolving credit to Spain carries $2\frac{3}{4}$ per cent interest and the long-term credits of that country to Spain and Chile $3\frac{3}{4}$ per cent.

Rates of interest charged on the postwar foreign credits are, as a rule, fixed in such a way as to cover the cost which the lender government has to incur in borrowing in the domestic market. This may or may not be the case of the American loan to Great Britain, depending on the rate at which the loan is actually disbursed. Assuming that, apart from the disbursements of the first 800 million dollars made so far, another 1,400 million is disbursed during the balance of 1947, and the remaining 1,550 million dollars in 1948, the effective rate of interest would be 1.74 per cent, or about the equivalent of the cost of the funds to the United States Government. (The average yield on the United States public debt is 1.75 per cent.) Should, however, the rate of disbursements be more rapid than anticipated, the effective rate of interest would be reduced below the cost of the money to the lender. If, furthermore, interest payments in any year should be waived, as is possible under the agreement, the discrepancy between the interest received and the cost of the money to the United States Government would, of course, widen. In the case of the Canadian loan to the United Kingdom and the Swedish loan to the Soviet Union, the effective rate of interest is likely to be significantly less than that at which the money

ments but contracted for after the termination of lend-lease when they were no longer "necessary for the defense of the United States."

³⁷ These are credits to finance lend-lease goods which, at the termination of lend-lease, were already held in inventories abroad or were about to be completed and shipped abroad.

is raised on the domestic capital markets.³⁸ The Swiss credit accommodations, granted within the scope of the Swiss payment agreements, are free of interest except for the income derived from the reinvestment of the balances in the borrowing country's Treasury bills. The Swiss Confederation has had to raise interest-bearing loans in order to grant these interest-free credits to foreign countries.

3. *Flexibility in Repayment Terms*

Altogether apart from the alleviation in the interest burden, and from the waiver clauses in the Anglo-American and Anglo-Canadian agreements, the postwar credit structure is endowed with considerable flexibility as to terms of repayment. As a rule, the commencement of repayment of principal is postponed for several years. Most of the American agreements postpone, for instance, the annual amortization payments for five years, to 1951; this is more particularly the case of the British loan, of the lend-lease loan to France of May 1946, and of the Export-Import Bank reconstruction credits. The Export-Import Bank "lend-lease" credits, however, and the earlier lend-lease credits under "3(c)" agreements, provide for immediate amortization of principal beginning in 1946. As an exception, the repayment of the United States lend-lease credit to the Soviet Union granted in October 1945 will begin only in 1954. The Canadian loan agreements likewise contain provisions for a postponement of amortization.

The question of the date of repayment has been left open in the most important Swedish reconstruction credit agreements. The reason for this is that "the credits would to a certain extent fail in their object if, by drawing up a definite refunding plan now at once, one were to cause the borrowing country financial difficulties during what will perhaps be the most sensitive period from the standpoint of reconstruction." In the Swedish loan agreements covering Danish, Norwegian, and Finnish reconstruction, moreover, it has been agreed only that the method of repayment shall be taken up for discussion within five years, by which time it is presumed that "such knowledge will have been gained of the payment conditions in the countries concerned as to enable an amortization scheme to be drawn up which will not have an adverse financial effect on the reconstruction activities."³⁹ The Swedish

³⁸ On the (unrealistic) assumption that the entire credit were disbursed immediately on the conclusion of the agreements, the effective rate on the Canadian loan would be 1.6 per cent, compared to 2.5 per cent as the average cost of money to the Canadian Government, and that on the Swedish loan would be $2\frac{3}{8}$ per cent, against the average cost of Swedish Government borrowing of about 3 per cent. As a matter of fact the rates on the intergovernmental loans will be higher since disbursements will be spread over a period of time.

³⁹ Svenska Handelsbanken's *Index*, Supplement B, "Sweden's International Credit Accommodation in 1944 and 1945," December 1945.

reconstruction credit to the Netherlands differs from the Norwegian, Danish, and Finnish credits of Sweden in that a fixed amortization scheme has already been agreed upon.

An even larger measure of flexibility is provided for in the American lend-lease agreements with the Soviet Union and France. According to the agreement of October 15, 1945 with the Soviet Union, repayments of principal may be postponed "if by agreement of both governments it is determined that, because of adverse economic conditions arising during the course of payment, the payment of a due installment would not be in the joint interest of the United States and the Union of Soviet Socialist Republics."⁴⁰ A similar, but somewhat broader, provision is made in the United States-French agreement of May 1946 covering the 720 million dollar lend-lease and surplus property credit: should the payment of any annual installment of principal and interest not be "in the joint interest of both governments . . . because of extraordinary and adverse economic conditions arising during the course of payments," payments may be postponed for a period agreed upon by the two governments. In the French case, however, there is no waiver of interest along the lines provided for in the Anglo-American loan agreement; moreover, the clause providing for postponement lacks a precise definition of the conditions under which it is to operate.

The conditional waiver of interest in the Anglo-American and Anglo-Canadian agreements, and the clauses of the French and Russian lend-lease agreements providing for a conditional postponement of amortization, constitute a unique feature of the postwar foreign credit structure. It has not been customary to make allowance in foreign-loan contracts for such balance of payments contingencies. On the contrary, contractual obligations to maintain interest service and amortization of the outstanding debt have been rigid in the sense that the contracts have contained no provisions for transfer difficulties in case of wide fluctuations in national incomes and balances of payments. Relief could come only by default, to which the creditor would have little choice but to assent. If it is remembered that in the thirties, out of the total amount outstanding of external issues made on the London market, the amount in default was about 30 per cent, and that a corresponding figure for dollar issues on the New York market was 40 per cent, there can be little doubt that even the limited degree of flexibility attained in the postwar international financial mechanism is a potent contribution to world financial stability.

⁴⁰ For the text of the agreement, see the *President's Twenty-first Report to Congress on Lend-Lease Operations*.

4. *Coordination of Foreign Loan Policies*

Free from impediments of excessive interest charges, and endowed with a measure of flexibility as to repayment terms, the present postwar lending rests on a much firmer foundation than that of the post-1918 period. The superstructure, however, has not so far been properly balanced owing to the lack of coordination of loan policies. One of the flagrant mistakes of the twenties has thus been repeated.

In the twenties the problem of foreign reconstruction credits was not faced as an *international* issue until the Brussels Conference met in October 1920, nearly two years after the armistice. The scheme for International Credits which the conference unanimously recommended failed because it came too late. After protracted negotiations, which lasted until October 1922, Austria received an international credit under the auspices of the League of Nations; other Central and South-eastern European countries followed, but they were dealt with one by one, without any attempt to coordinate either the economic policies of the lenders and the borrowers or those of the borrowers among themselves. Apart from the League of Nations loans, the principal creditor countries extended such loans as they deemed suitable in each individual case. Hardly any attempt was made at an over-all examination of the economic possibilities of the borrowing countries when loans were to be granted, nor were the wider economic implications of the loans fully realized.⁴¹ Part, at least, of the defaults that occurred in the thirties can be traced to the lack of coordination of the lending policies of the principal lenders.

It took the disintegration of the network of the foreign lending to teach the needed lesson, but even today coordination has been more on a national than on an international level.

As to purely American lending, a great deal of coordination has already been accomplished. Foreign loans are carefully screened and viewed in terms of the effects which they will have upon the whole economy of the borrower,⁴² while, to ensure proper coordination with

⁴¹ Cf. U.S. Department of Commerce, *The United States in the World Economy* (Economic Series, No. 23, 1943) page 19: "There was, far too frequently, an extremely poor choice of investment risks, reflecting both the absence of any official policy and the abuse and mismanagement of the capital market by inexperienced and unscrupulous investment houses temporarily attracted by opportunities for abnormal profits."

⁴² The Export-Import Bank, in its *Second Semi-Annual Report to Congress for the period January-June 1946*, describes in the following terms the procedures followed in arranging the reconstruction credits to foreign countries: "There is required a statement by the borrowing country regarding the purposes for which the credit is to be used, including lists of materials, equipment, and services to be purchased in the United States; justification for seeking the assistance of the Export-Import Bank,

the Government's foreign lending program, they are examined by the National Advisory Council on International Monetary and Financial Problems set up, for this purpose, in the summer of 1945. In the course of the Anglo-American loan negotiations, for instance, the British delegation presented to the American negotiators a comprehensive statistical documentation regarding the present and prospective balance-of-payments position of the United Kingdom; and again, on the occasion of the United States-French negotiations last May, "the French Government . . . made known to the United States Government its plan for the reconstruction and modernization of the French economy."⁴³ By proper coordination American loans are thus "directed towards the creation of an international economic environment permitting a large volume of trade among all nations."⁴⁴

On the international level, however, coordination has so far been insignificant, each lender acting without regard to the loan policies of the others. The most notable achievement in coordination has been the close relationship which the Anglo-Canadian loan agreement bears to the Anglo-American: the two agreements, covering 5.6 billion dollars out of the aggregate of over 14 billion of postwar foreign indebtedness, are conceived in the same spirit, and some of their essential clauses are identical.⁴⁵

In the long run, however, the prospects for a much fuller coordination of foreign lending appear to be fairly good. The Bretton Woods institutions are about to begin operations and, however restricted in scope their initial activities may be, they should ultimately be conducive toward a closer integration of the economic policies of the member States.⁴⁶

including satisfactory evidence that private credit is not available; and various economic data bearing on the need of the country for external loans and its capacity to repay."

⁴³ Statements jointly released by the Government of the United States and by the Government of the Provisional French Republic on May 28, 1946.

⁴⁴ Statement of the Foreign Loan Policy of the United States Government by the National Advisory Council on International Monetary and Financial Problems, March 1, 1946 (see the *Federal Reserve Bulletin*, March 1946, page 277).

⁴⁵ The Anglo-American agreement contains provisions to the effect that loans which Great Britain may receive from governments of the Commonwealth between December 6, 1945 and December 31, 1951 shall be on terms that are no more favorable to the lender than those contained in the American loan. It also specifically provides that, if interest payment is waived on the American loan, a similar waiver must apply to interest on loans from Empire Governments.

⁴⁶ In the view of the United States Government, the International Bank, which "will assume the primary responsibility for meeting the world's international capital requirements," provides a means by which "the risks as well as the benefits from international lending will be shared by all of its members." (Statement by the National Advisory Council on March 1, 1946.)

5. *Integration with Commercial Policies*

Apart from the lack of adequate coordination of the loans, as such, postwar foreign lending has not yet been well integrated with national commercial policies, and the lessons which have been drawn from the vicissitudes of the interwar period have thus not yet been consistently applied.

The postwar credits have a dual character: by far the largest part of the lending is bilateral, but the Anglo-American loan is multilateral. The credits other than the Anglo-American are tied loans, *i.e.* utilizable only for the payment of exports from the creditor to the borrowing country. To some extent the character of the loans is the inevitable consequence of the circumstances out of which they arose. The American lend-lease and surplus property credits, for instance, were designed to permit the purchase of specific inventories or goods that were in process of manufacture, while the Swedish reconstruction credits were granted to the other Scandinavian countries and to the Netherlands to enable them to purchase in Sweden, immediately after the close of the European war, such goods as they required to cover their most urgent needs—"without regard to Swedish export interests."⁴⁷

However, the greater part of the postwar foreign lending was tied either with a view to expanding the lender's exports or simply for the sake of continuing policies from the thirties under which the proceeds of loans were not available for payments to third countries. The Export-Import Bank, for instance, in applying its basic principles, "extends credit only to finance purchases of materials and equipment produced or manufactured in the United States and the technical services of American firms and individuals as distinguished from outlays for materials and labor in the borrowing country or purchases in third countries." Under the conditions prevailing in the world today, the goods needed by the countries borrowing from the Bank are physically available only in the United States, and the financial arrangements are therefore not in actual fact discriminatory against other exporting nations. In the long run, however, when alternative sources of supply again become available to world buyers, the tying of the loans may be construed by foreign countries as a peculiar form of American discrimination against them.

The proceeds of the Canadian loans, also, may be used only for the purchase of Canadian goods; Swedish commercial credits are primarily designed to promote Swedish exports;⁴⁸ the Swiss export of capital

⁴⁷ Svenska Handelsbanken *Index*, Supplement B, December 1945.

⁴⁸ The Swedish credit to Poland has, moreover, been made dependent upon that country's exports to Sweden because of urgent Swedish needs for Polish coal.

serves to ensure Swiss exports of goods;⁴⁹ and the Argentine credit to Chile is part of a policy calling for far-reaching economic cooperation exclusively between those countries.⁵⁰ The European payments agreements (which actually cover the whole sterling area as well as the respective overseas territories of France, Belgium, Holland, and Denmark) are likewise strictly bilateral in their operation, their exclusive purpose being to facilitate the resumption of foreign trade between the contracting countries. Since, in the present circumstances, this trade is necessarily one-sided on balance, the creditor country in effect grants only such credit accommodation as is believed to be necessary to finance a given volume of exports.

A sharp diplomatic controversy developed on the occasion of the Swedish-Soviet credit negotiations. The United States Government, in notes to Sweden and to the U.S.S.R., stated its "concern" regarding the effect of long-term bilateral agreements of an "exclusive nature" upon the international program for the multilateral expansion of trade. In its reply, the Swedish Government pointed out that, while it was ready to adhere to a multilateral arrangement "subject, however, to the condition that such an arrangement would be of a truly international character, that is to say, that it would receive the approval of the principal States engaging in international trade," it reserved its complete freedom of decision "as to the opportuneness of concluding such bilateral agreements." The Russian note expressed the Soviet Government's "extreme surprise" at the American protest because the American Government was itself concluding a number of bilateral long-term credit and trade agreements through long-term credits for the purchase of American goods.⁵¹

It may fairly be said that strict bilateralism is the dominant commercial-policy feature of the postwar international loans so far negotiated. In contrast, however, to the tied American, Canadian, Swedish, Swiss, Argentinian and other credits, it is notable that the proceeds of the American loan to the United Kingdom may be spent anywhere in the world.⁵² Indeed, by its nature and its implications, the American

⁴⁹ The Swiss negotiators made the granting of credits also dependent upon various concessions on the part of the foreign countries, such as transit authorizations, export permits for urgently required raw materials and foodstuffs, cooperation of Swiss firms in the reconstruction of harbors, railroads, bridges, etc.

⁵⁰ Customs duties are to be reduced or completely abolished, and there will also be mutual trade and financial preference, these concessions and advantages reciprocally granted to be excluded from the effects of most-favored-nation treaties.

⁵¹ *Department of State Bulletin*, September 15, 1946, page 507, and *New York Times*, September 3, 1946.

⁵² As stated in the preamble to the joint Anglo-American statement, the purposes of the credit are: "To facilitate purchases by the United Kingdom of goods and services from the United States, to assist the United Kingdom to meet transitional postwar deficits in its current balance of payments, to help the United Kingdom to

loan to Great Britain is a pre-condition of the new international order in trade and finance that is intended to be established under the Bretton Woods Agreements. The loan would almost certainly not have been granted if Britain had not accepted the Bretton Woods obligations, and, conversely, Britain's acceptance of membership in the International Fund and Bank was likewise dependent on the ratification of the loan by the United States Congress. The Anglo-American agreement, woven into the wider texture of the Bretton Woods program, thus forms a link between the postwar international lending and the envisaged shape of things to come. "The loan agreement between the United States and the United Kingdom is not a transaction that stands by itself; more properly, it has to be regarded as the quickening agent for a whole series of plans, obligations, and undertakings covering the entire field of economic relations between most of the nations of the world."⁵³

As a part of the building of this new order in finance and trade, the government of the United Kingdom accepted, as a basis of discussions directed toward a multilateral non-discriminatory system of trade and finance, the "Proposals for Consideration by an International Conference on Trade and Employment" which were drawn up in the State Department of the United States and published at the same time as the Anglo-American loan agreement. The French Government likewise reaffirmed, at the conclusion of the loan negotiations with the United States last May, "complete agreement at all important points" on these principles. While the Anglo-American loan agreement, in its commercial-policy aspects, primarily aimed at eliminating exchange restrictions and ensuring convertibility of sterling balances in general, the specific provisions of the United States-French agreement were directed toward an elaboration of an improved French tariff (and subsequent negotiations of reciprocal tariff reductions), elimination of the French policy of quantitative trade restrictions, and prevention of direct or indirect export subsidies. These differences between the two sets of agreements reflect only the differences in the problems and policies that had to be dealt with in promoting an understanding between the world's three greatest trading nations. The whole foreign commercial-policy program (which has so far been elaborated, in great detail, on a purely technical level) is to be submitted in the course of 1947 to an International Conference on Trade and Employment. This conference, in turn, will report to the United Nations.

maintain adequate reserves of gold and dollars, and to assist the United Kingdom to assume the obligations of multilateral trade."

⁵³ *Midland Bank Review*, August 1946, page 5.

6. *Conditions for Success*

Clearly, the re-establishment of multilateral trading is one of the prerequisites for the ultimate success of postwar foreign lending. The transfer of interest and redemption payments, as well as any further foreign lending, can be effected in the long run only in a truly multilateral world trading system. Obviously, the United Kingdom could never repay the United States by direct exports; its exports to the United States are not, in the foreseeable future, likely to be as large as its direct imports from this country.

For the building up of a multilateral trading world, three essential conditions must be fulfilled. The first is a propitious political environment. In an insecure world, debtor countries would have to divert to military expenditures an undue part of their national income, with the result that the charges on foreign debts would become intolerable. Moreover, international trade in such a contingency would, as in the thirties, be so small and so strictly bilateral as to render the transfer of interest and amortization payments all but impossible.

Given international security, the second condition is the willingness of the lending countries to accept service and amortization payment in goods and, conversely, the ability of the debtor countries to develop an export surplus large enough to enable them to meet their obligations. Whether the United States, Canada, Sweden, Switzerland, and other net creditor countries will expand their imports sufficiently to permit payments on the loans is perhaps more dubious than the ability of the debtor countries to supply goods.

The magnitude of the problems involved can be illustrated from the cases of the largest postwar lender and the largest postwar borrower. The annual interest and amortization payments on United States' lending, present and contemplated (that is, including the additional Export-Import Bank program and the International Bank loans that are expected to be floated in the United States markets), will be about 1 billion dollars.⁵⁴ The ability of foreign countries to transfer amounts of this size will depend upon the extent to which dollars are made available to the outside world through American imports of goods and services (including those furnished to American tourists, and other items of like character). Imports, however, may contribute to unemployment in conditions of disequilibrium and accordingly are likely to be maintained on a level commensurate with the exigencies of international multilateral trading only if large-scale economic depressions, comparable to that of the thirties, can be avoided.

⁵⁴ Statement by the National Advisory Council, March 1, 1946.

From the debtor country's point of view, the relative burden of the annual debt charges is to be viewed in conjunction with the size of current exports. Great Britain is the largest postwar debtor. If the official British objective of an export volume three-quarters again as big as in 1938 should be attained by 1951, the annuities on the British debts to the United States and Canada would represent rather less than 3 per cent of British exports. But should Britain's export volume be smaller, or should prices be substantially lower than was anticipated at the time the United Kingdom incurred the obligations, the burden of the debt on the British would be proportionately heavier. This is, indeed, what happened in the twenties. Under the debt-funding agreement of 1923, the annual interest and amortization charge on British debt to this country represented about $4\frac{1}{2}$ per cent of British exports in that year, but by 1931, when payments were intermitted under the Hoover moratorium, the annuity (which had been fixed in terms of dollars) had come to exceed 7 per cent of British exports.⁵⁵ The ability to transfer the interest and amortization on the loans depends, therefore, on the volume of world trade—that is, in the last resort, on the level of world income, on well maintained employment and commodity imports in the United States, and on no substantial fall in the dollar price level.

In the world today, the course of prices in the United States is important not only with respect to loans but has an even more direct bearing on foreign countries. Most of these countries rely on imports from the United States, and they are fully aware of the interdependence of American and "world" prices of foodstuffs and raw materials. The rise in the American price level has already materially diminished the value of the money that foreign countries have borrowed in the United States. The uncertainty as to American wage and price developments is reflected in the statement, made in Parliament, on July 19, 1946, by the Financial Secretary to the British Treasury, to the effect that, although the dollar credits had been granted, Britain did not necessarily have to draw on them. The Secretary further implied that, if inflation went on unchecked in the United States, London might not make much use of the loan.⁵⁶ Should the loan not be fully used, the United Kingdom, because of its precarious balance of payments position, would be likely to retain, or even increase, its trade restraints on the grounds that a fundamental change had occurred since the loan agreement was negotiated. The consistent implementation of the Anglo-American agreement, and of the accompanying commercial-

⁵⁵ This aspect of the problem is developed in some detail in the *Midland Bank Review*, August 1946.

⁵⁶ Statement reported in the *Foreign Policy Bulletin*, July 26, 1946.

policy program, would then go by the board. If, on the other hand, the British use the loan in the face of the present high prices in this country, the burden falling on them in paying interest and amortization would be greatly aggravated by any subsequent drop in American prices (rise in the real value of the dollar).

The effects of the current increase in the American price level have, moreover, not been confined to the direct relations between the United States, as the largest postwar lender, and the recipients of the credits. Because of the rise in American prices, the currencies of the second and third greatest postwar lenders—Canada and Sweden—were subjected to a deliberate appreciation last July,⁵⁷ and, as a result, the burden of such debts as are expressed in the Canadian and Swedish currencies was increased to the detriment of the borrowing countries.

IV. CONCLUSIONS

Three main conclusions on general international economic policy emerge from the present interim survey of postwar international indebtedness:

1. To the questions whether the postwar credits are adequate, whether they are safe, and whether they should be further increased, it is, on a mere consideration of the size of the loans made by individual lenders to individual borrowers or of their aggregates either for individual countries or for the world as a whole, impossible to give a definite response. The new international credit structure is rather to be viewed in the light of the environment in which the loans are being extended. The terms and conditions of the loans, their commercial-policy implications, and the kind of a world we are to have, are much more significant than the absolute size of the debts.

2. Some of the principal features of the pattern of postwar lending, as they are outlined in this study, are encouraging. Others are to be viewed with anxiety.

Because of the lend-lease settlements, the international debt-credit structure is free of a huge deadweight burden. Interest charges on the loans are, moreover, far lower than in the twenties and the repayment terms are endowed with a definite measure of flexibility.

The postwar lending, however, has not been properly woven into a coordinated network and each lender has acted without much regard for the loan policies of the others. The majority of the loans, furthermore, are tied loans, serving the immediate purposes of export financ-

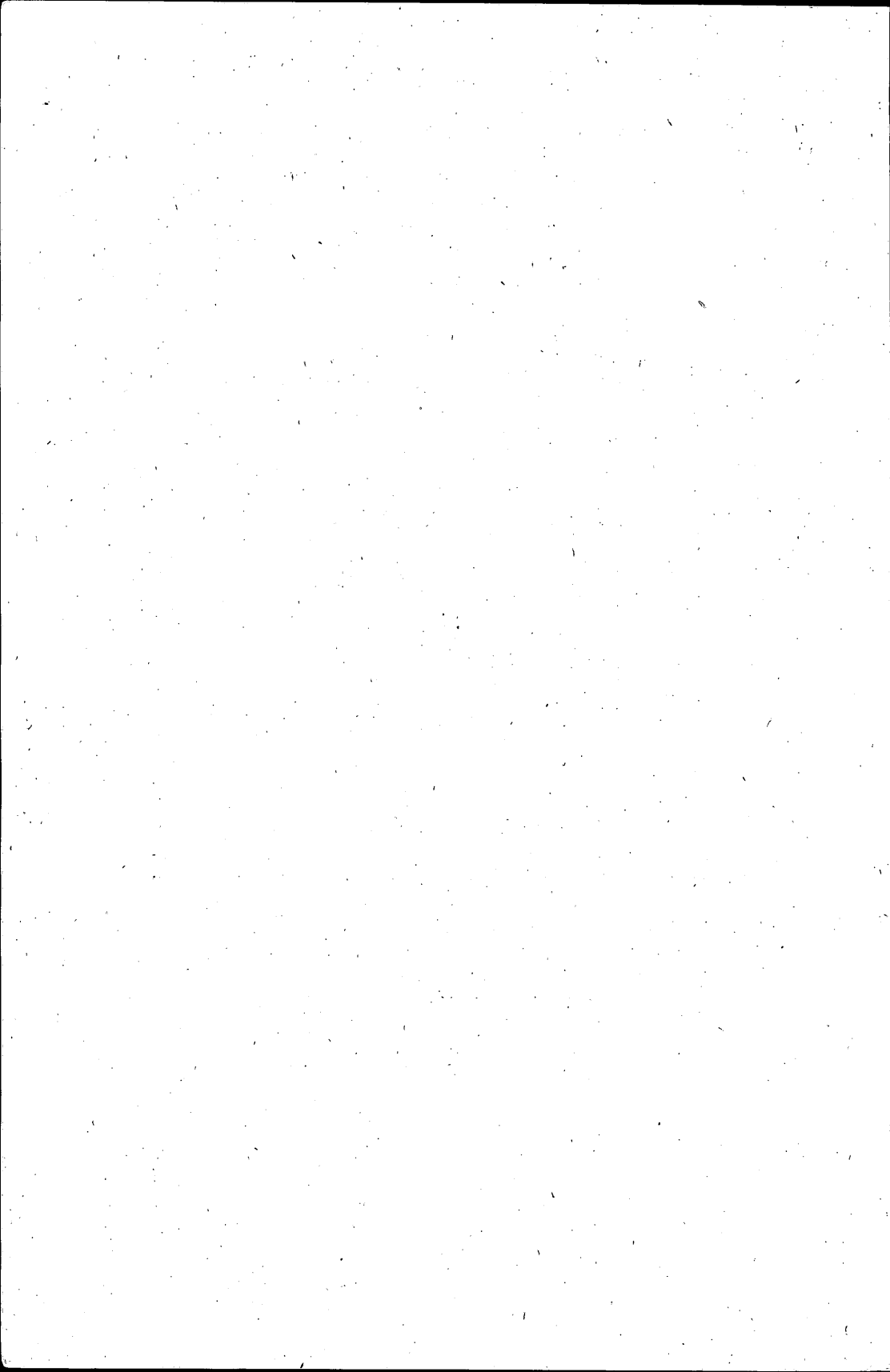
⁵⁷ The Canadian dollar was raised by about 11 per cent to parity with the U.S. dollar, and the dollar value of the Swedish krona was raised by 17 per cent.

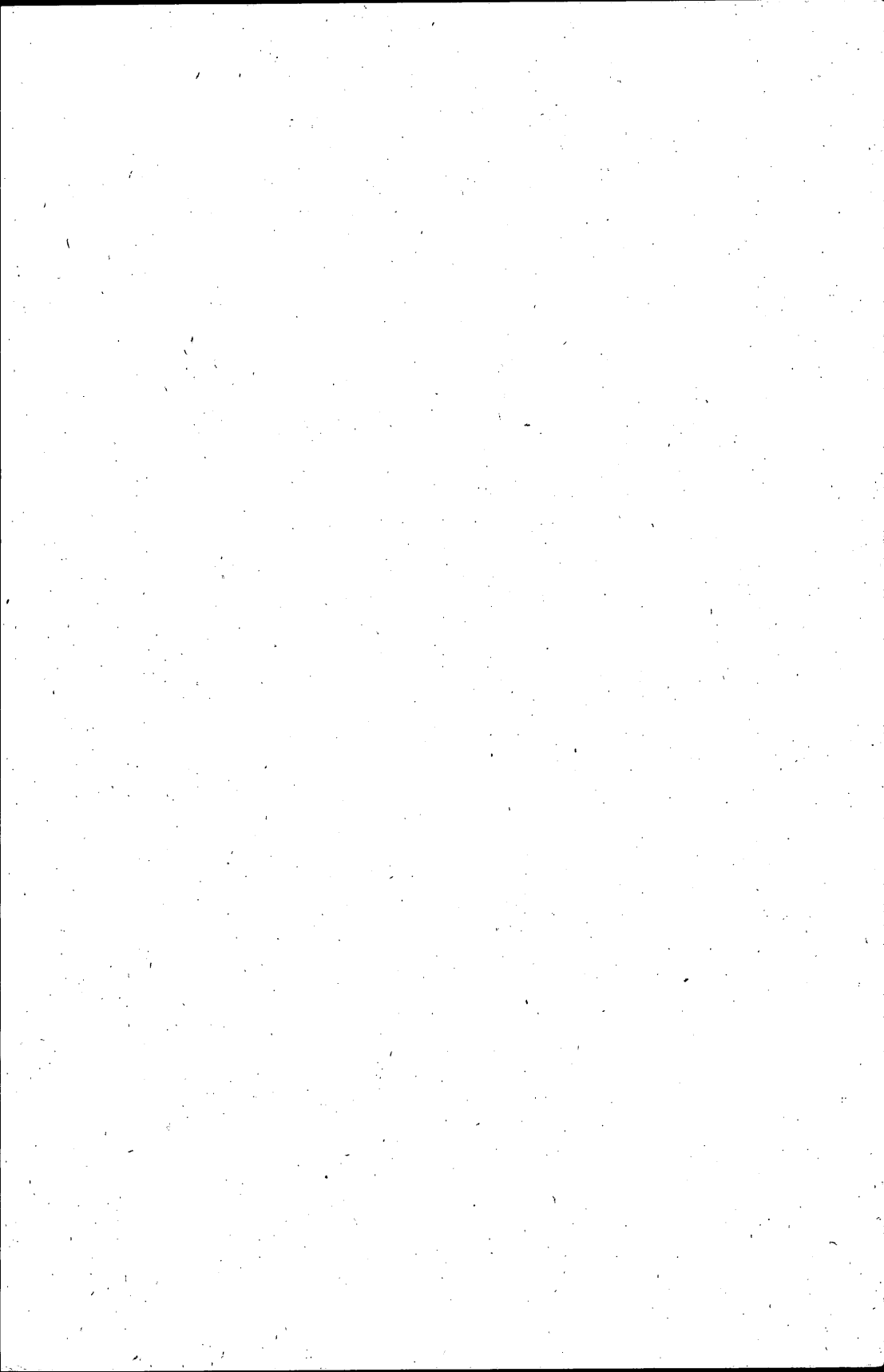
ing in the lending countries, but strictly bilateral in their commercial-policy implications.

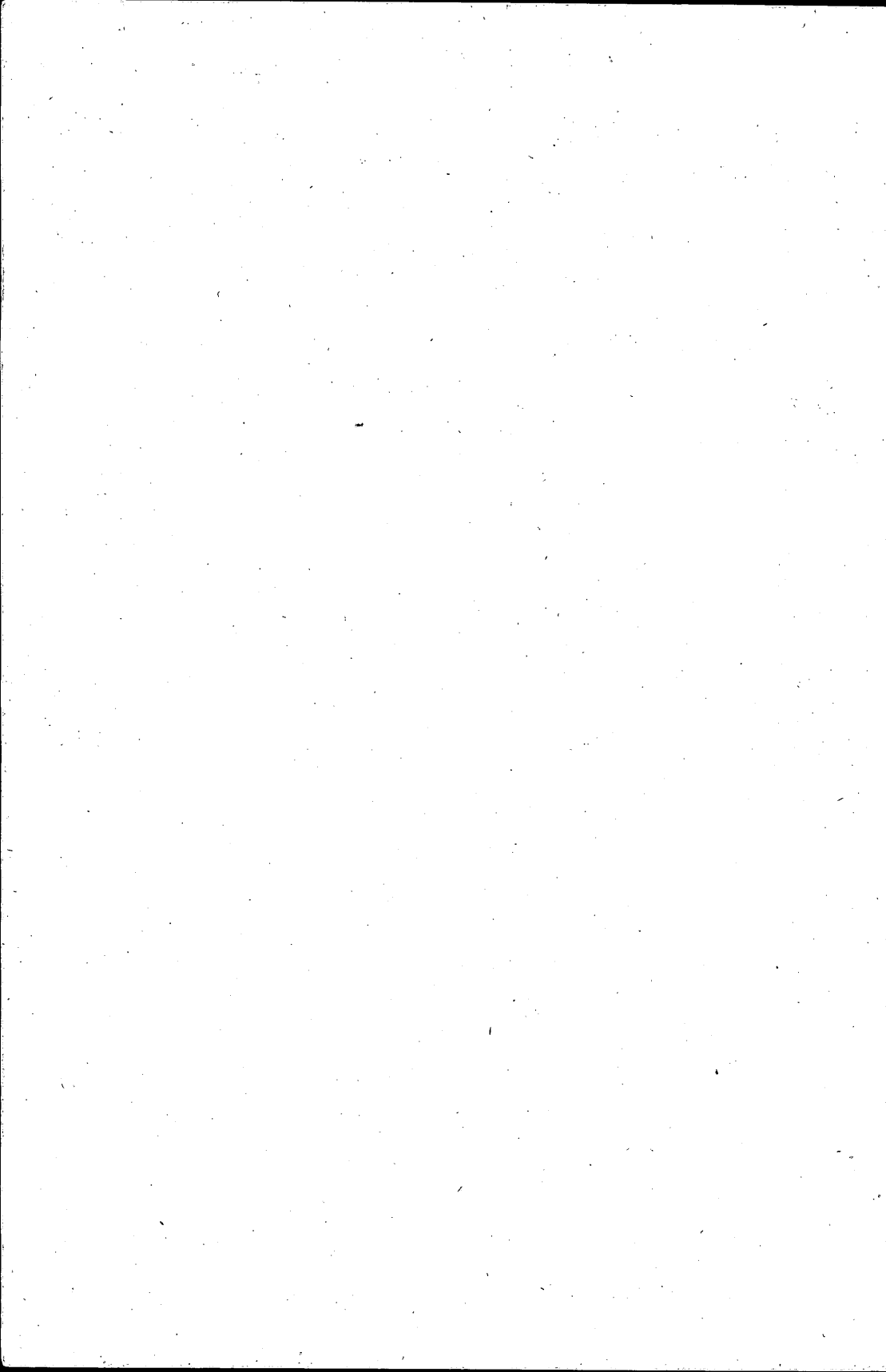
This pattern will be changed into a more coherent and balanced structure by the implementation of the Anglo-American loan agreement. The American loan to Great Britain as a catalytic agent in the Bretton Woods arrangements, which are to support the entire structure, is designed to further the adaptation of postwar international lending to the contemplated world economic order. Viewed in this perspective, the loan appears as an unequivocal effort to restore foreign commerce and finance to a multilateral basis and thus to safeguard world economic unity.

3. For the successful integration of postwar lending into the larger structure of a new economic and financial order, three conditions are essential. There must be a propitious political environment, widespread adherence to the new international economic program, and a reasonable certainty as to trends of production and prices in the key countries. The present international political tribulations impede the economic and financial reconstruction of the world, and the arguments advanced in some quarters in favor of the Anglo-American loan agreement showed less concern for the advantages of multilateral trading than for considerations relevant to a balance of political power. The new economic and financial order is not yet by any means world-embracing, since not only the U.S.S.R., but also such countries as Argentina, Sweden, Switzerland, Australia, and New Zealand, remain outside the Bretton Woods institutions. And finally, uncertainties as to price and wage developments in the United States, and as to the eventual level of production and employment here, render it more difficult for both the United States and other countries to implement the international economic program.

Should international economic policies be allowed to drift much longer, there is serious risk that the great contributions which postwar lenders have made to world recovery would be brought to naught. The lending, together with the Bretton Woods arrangements and the commercial-policy proposals now under consideration, offers a unique opportunity to build a peaceful and prosperous world. It would indeed be tragic if we should falter now, and fail in the necessary extra effort. "The little more, and how much it is! . . . the little less, and what worlds away!"







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