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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)

Incurred by

United Kingdom:		7,250
Continental Western Europe:		
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.