THE ROLE OF THE EXPORT–IMPORT BANK IN U. S. ECONOMIC DIPLOMACY TOWARD LATIN AMERICA

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A distinctive feature of present United States diplomacy toward Latin American countries is the utilization of government fund as an effective means of placing this area under her control. Recognizing well that economic factor may form a basis of other policies in maintaining the security and stabilization of the Western Hemisphere, U.S. government has placed great emphasis on the financial aspect of foreign relations. There are in reality a variety of financial institutions, both unilateral and multilateral, which have been used to support the dominant position of the United States in the Hemisphere. But the idea of using government financial institutions as a means of diplomacy is not new; it has a history of nearly four decades.

It was under the economic crisis of the Great Depression that U. S. government first institutionalized its financial function with respect to diplomacy. Confronted with serious economic difficulties of the 1930's, the Roosevelt government was forced to work out some positive measure to expand continuously American foreign trade and investment. One of the measures was the organization of the Export-Import Bank in 1934, whose object was to secure overseas economic expansion through financial activities of the government.

Although the Wilson government once extended loans to the Allied countries, U. S. governments before the New Deal era did not intend to follow financial business with foreign countries. As Secretary of State Hughes stated in 1923, "it is not the policy of our government to make loans to other governments, and the needed capital, if it is to be supplied at all, must be furnished by private organzations."(1) It was also deemed contrary to good public policy that the government would offer financial aid to businessmen engaged in foreign trade. Foreign trade should be, President Coolidge mentioned, "distinctly the business of the people themselves and ought to be independent of government's action."(2) The organization of the Export-Import Bank meant a departure from these principles, for the Bank was the first U. S. agency designed to conduct or influence foreign relations through the direct utilization of government fund. It might safely be said that American economic diplomacy entered a new phase through the introduction of this governmental function.

As a matter of course, the Export-Import Bank did not focus exclusively on Latin America, nor did it wear any character of regional financial arrangement. As an emergency measure at the outset, moreover, the Bank might not constitute a major part of the "Good Neighbor" policy and its significance was not fully appreciated during the 1930's. Taking into consideration the subsequent development, however, we could not but recognize the importance of the Bank policy. In a sense, it formed a foundation of the recent well-organized and advanced financial diplomacy of the U. S. toward Latin America. Furthermore, based on the successful experience of her hemispheric policy, the U.S. was to establish financial machineries on international scale through the Bretton Woods Agreements and others. Along with the development of the Bank operations, U. S. government thus expanded and established its finacial function in the field of foreign policy.

From this stand point, I tried to make a brief survey of the activities of the Export-Import Bank concerning Latin American countries from 1934 through the 1950's and to discuss the significance of this machinery in U .S. financial diplomacy toward this area.

I

The idea of government finance to export business had been expressed soon after the outbreak of the Great Depression. In the Congress the problem was brought forward in connection with the establishment of the Reconstruction Finance Corporation in 1932. The original bill of the RFC did not have any provision for government financial aid to exports.[3] But it seemed to be clear that export business was in serious depression and lacking in "the usual and necessary means of support essential to the normal existence." Therefore the Senate Committee on Banking and Currency recommended in its report that a section should be incorporated "in which the corporation (RFC) is given the authority to undertake the financial aid to exports."[4] It was expected that this governmental aid would render a very material service to American exporters and result in assisting the reestablishment of foreign trade.[5] Though the Congress failed to realize the idea, it should be noted that for the first time the problem of export credit was discussed as a means to promote overseas economic expansion.

Again in 1933, when a bill to further unemployment relief was submitted, governmental aid to export trade became under consideration.[6] This time, however, it was not a Congressional committee but exporters that insisted on government financial aid. At the hearing of the bill a representative of American export business submitted an amendment to the bill "to assist in putting men at work in industries . . . which export all or part of their products." The amendment plainly provided that the RFC should extend assistance to offer export credit guarantees.[7] The Congress was not ready yet to approve of the amendment, but the idea of government financial aid was gradually gaining ground.

In the discussion concerning the utilization of government fund, the advocates of the program did not place particular emphasis on U. S. trade with Latin America but on general trade expansion, somewhat different from the case of the Trade Agreements program. In fact, it was for the purpose of expanding U. S.-Russian trade that the first Export-Import Bank was organized in February, 1934, by an Executive Order.[8] When the Roosevelt government decided to recognize the Soviet Union, it expected not only to solve the pending dept problem but to promote U. S. exports to that country.[9] In due consideration of the Soviet economic system, Roosevelt regarded it as necessary to have a government bank in order to deal with AMTORG which was the sole purchasing agent for Russia. It was also expected that the trade with Russia would develop in such a way as to require the financing which private capital could not supply.[10] Under this singular condition, the way was cleared for government finance to foreign trade.

The function of the first Export-Import Bank was limited to U. S.-Russian relations. It should be noted, however, that from the beginning the government took a broader view of the policy. When President Roosevelt explained the necessity of organizing the Bank in his executive order, he did not focus just on U. S.-Russian trade but instead emphasized the general necessity of such a machinery, mentioning that "it is expedient and necessary that a (government) banking corporation be organized with power to aid in financing and to facilitate exports and imports and the exchange of commodities between the U. S. and other nations."[11] As clearly shown by this statement, the creation of the Bank for U. S.-Russian trade was only an initial step to the materialization of a general program. In fact, while the first Export-Import Bank did not extend any operations as a result of failure in U. S. -Russian negotiations concerning the dept problem, the second Export-Import Bank was to develop successfuly its operations in other areas, particularly in Latin American countries.

II

Shortly after the incorporation of the first Bank, officials of interested agencies of U. S. government were seeking a solution to a request by the Government of Cuba for a loan to finance the purchase of silver and its minting into Cuban silver pesos. Financial aid through a similar machinery to the Bank appeared to be the only practicable means of meeting a serious Cuban budgetary deficit and of instituting a program of useful public works in that country. Besides, from a viewpoint of U.S. national interest, it was considered available to assist Cuba to re-establish its economy and thereby to restore and expand a diminishing but important trade relations between the two countries. Accordingly, pursuant to an executive order dated March 9, 1934, the second Export-Import Bank was organized to aid Cuban finance.[(12)] The second Bank extended loan of approximately $ 4 million to finance the purchase of silver buillion and its coinage. This was the first business transaction by either Bank.

This action of the second Bank was full of meaning. First, whatever the original program might be, the Export-Import Bank extended its operation first of all to a Latin American country as a link of the chain of the "Good Neighbor" policy. Second, the Bank's policy to Cuba added in practice a new function to that which the first Bank had planned to do. The latter was designed to extend credits or loans in order to expand American trade, but left out of account any aid to the Soviet national finance. The operation of the second Bank for the Cuban government aimed directly at the reestablishment of its national finance and thereby indirectly at the expansion of American trade. This marked an introduction of U.S. "Good Neighbor" financial diplomacy toward Latin American countries whose economy was weak and would be possibly dependent on U.S. financial power. Such a policy meant in reality more than promotion of foreign trade. It was clearly recognized that urgent problems were not only credits to U.S. exporters but also financial aid to Latin America.

In regard to finance to Latin American countries, the process of enacting the Johnson Act of 1934 would be significant, though it was usually treated lightly by scholars. In a word, the Johnson Act enabled U.S. government to extend finance to Latin America, while prohibiting in effect government loans to most European countries. The object of the Act was to force foreign governments to repay their depts, particularly war depts, by prohibiting the extension of loans to any foreign governments in default on their obligation to the U.S.

Its original bill was applicable to defaulted obligations to U. S. citizens as well as to U.S. government.[13] If the original bill was enacted without amendments, the effects would have been very destructive to U.S. economic relations with Latin America, because, while owing no war depts, most governments of this area had more or less defaulted their obligations to U. S. citizens. At that time when efforts were being made to encourage commercial intercourse with Latin American countries, it was clearly unwise to enact such a legislation as would be offensive to those countries. Thus an amendment was presented to remove the provision for default to U. S. citizens. As Assistant Secretary of State Moore pointed out, "unless this (amendment) is done, there will be undesirable obstruction to loans being negotiated by dependable governments such as Canada and Latin American countries."[14] Moreover, many of Latin American countries which had been in default on their bonds were rich in natural resources and were prevented from meeting their obligations just by reason of the chaotic condition of world trade and commerce. Thus the Roosevelt government recognized that "as this condition improves and the sale of products increases, they (Latin American governments) will adjust their foreign indebtness and the enactment of a law by us prohibiting the flotation of further loans would merely serve as an irritant to the disadvantage of our trade and commerce with them."[15]

Different from its negative policy toward Europe, U. S. government took a positive attitude or at least recognized the importance of financial expansion toward Latin America. As a result of this amendment, the Export-Import Bank was able to extend loans to Latin American countries, while it became in reality impossible for the Bank to do financial business with the Soviet Union. Therefore, it was natural that the Bank should concentrate the operations on finance to the Western Hemisphere. In fact the Bank started as a part of the "Good Neighbor" policy, though it was not so conspicuous as the Trade Agreements program.

The creation of the two Export-Import Banks caused such interest among U. S. foreign traders in general that the Banks received numerous inquires and requests as to the possibility of extending their operations to finance foriegn trade with other Latin American countries than Cuba.[16] The Roosevelt government did not hesitate to deal with this problem. The original idea was to have different banks for various countries, but this idea was almost immediately abandoned as it seemed to be too complicated to be practical.[17] With the approval of the President, the Banks announced in July 1934 that the second Bank would extend its operations to assist in financing U. S. trade to any part of the world except Russia.[18] Furthermore, in January 1935, the two Banks secured the enactment of a Congressional legislation to support them,[19] and at last in June 1936, these two Export-Import Banks were formally combined into one institution after the final breakdown of U. S.-Soviet dept negotiations.[20]

III

The activities of the Export-Import Bank might be roughly divided into three periods according to their characters: the first period, 1934–1939; second, 1940–1944; and third, years after 1945. In the first period the Bank managed to have the way for its operations, but it was still an emergency machinery to cope with the economic depression. In the second period the Bank took on a different character. Under the pressure of the world war, it came to have more positive function and to play a sort of financial arrangements. In the third period, together with new international organizations for financial and monetary problems, the Bank's position was established as a major agency of U. S. economic diplomacy. Far from an emergency measure, the Bank became considered to be a permanent and indispensable institution in the post-war U. S. diplomacy. On the other hand it lost somewhat a regional character which it had worn during the war period.

In the first period, the Bank had three major functions in order to promote U. S. economic relations with Latin America. One was to extend credits and so afford direct assistance to U. S. export of manufactured goods. Though the method was different from the Reciprocal Trade Agreements program, the Bank also constituted a trade expansion policy of the New Deal. Second was to extend credits to Latin American governments which had faced financial difficulties and thereby to help indirectly the expansion of foreign trade. This was significant, for the Bank recognized that financial problems underlay the setback of foreign trade and that, without financial stability in Latin American countries, it would be difficult to promote foreign trade. Third was to extend credits of the type which had come to be known generally as "development loans." This function began late 1930's and was probably the most important from a viewpoint of the subsequent development of U. S. policy. These three types of Bank's operations are to be discussed in order.

While U. S. agricultural exports were directed mainly to Europe, it was noteworthy that the operation of the Export-Import Bank as for exports of manufactured goods were connected with Latin American countries. The amounts of its credits in this field were far larger than those in agricultural exports. For instance, the credits to export heavy machinery to Argentina alone amounted to more than $ 50 million up to June 1940. Finance to exports of machinery to Brazil also reached equally large amount.(21) In addition to these two major customers, the Bank played an important part in promoting the export of manufactured goods such as railway cars, locomotives, road-building equiments and machine tools to Chile, Cuba, Colombia, Costa Rica, Ecuador, Mexico, Nicaragua, Panama, Peru, and Venezuela, that is, the geater part of Latin America.(22)

This operation was full of meaning, for it formed in a sense a basis for the policy of reciprocal trade agreements. It was recognized that under the depressed situation mere reduction of tariff rates would not be sufficient to increase U. S. exports to Latin American countries, particularly exports of capital goods whose transactions usually amounted to big figures. Credits on more liberal conditions than commercial banks would be highly useful to these transactions. The Export-Import Bank met this necessity with utilization of government fund.

A major principle as for the operations of these export credits was that "the Bank should not contemplate loaning money to foreign countries but loan money only to American exporters to be spent in America."[23] Thus in order to use credits of the Bank, foreign traders or governments had to buy U.S. goods in the United States. This was the most effective method to bring profits to U. S. industries and expand outlets for their surplus materials.

The second type of the Bank's operations was "to finance blocked exchange where the release of the money would result in benefit to the American exporters concerned."[24] Most Latin American countries adopted blocked exchanges system as a result of shortage of free exchange which, in turn, was caused chiefly by lack of exports to the United States. Coping with this serious problem, the Export-Import Bank afforded relief against delays in the transfer of dollar exchange with Latin Amrican countries.

In due consideration of hardship of the exchange situation, as early as in 1935 the Export-Import Bank extended this type of credits to Brazil. In this case the Bank agreed to purchase the Brazilian obligations from U.S. exporters to a total of about $28 million. This credit to Brazil, though only its small portion was used, had remarkable effects on easing Brazilian blocked account of U.S. exports.[25] Again in 1939 a credit of $ 19 million was extended to Brazil for the same purpose. Unlike the former case this credit was extended directly to the Banco de Brazil to permit immediate liquidation of the commercial claims for exchange.[26] The extension of credits to help in stabilizing exchange rates of Peru eased the pressure so that Peru did not actually need to use the funds. Colombia and Costa Rica also received credits which helped them to handle their exchange problems.[27]

Furthermore, in 1939 the Bank established lines of credit in favor of central or other principal foreign banks to provide doller exchange for essential imports from the United States during the periods of temporary exchange shortages between export seasons. Thus lines of $ 500,000 each were made available to Banco Nacional de Nicaragua, and Banco de la Republica el Paraguay, and a similar line of $ 4 million was established in favor of Banco de la Republica Oriental del Uruguay.[(28)] This type of credits was as useful as credits to U. S. exporters in expanding foreign trade.

As a matter of course, the extension of these credits was limited to the import of those countries from the United States. But it should be noted that this operation deviated from the principle that the Bank should not contemplate loaning money to foreign countries but extend credits only to U.S. trader to be spent in this country. The exchange difficulties in Latin America, which was a major obstacle to trade expantion, made this policy necessary. Taking advantage of this situation or forced to take such an action, the United States started extending credits to Latin American governments or banks. This operation of the Bank not only contributed to increase of U.S. export but implied the possibility of establishing an economic solidarity on the basis of U. S. financial power in the Western Hemisphere.

The third type of the Export-Import Bank's operation was development loans to Latin American countries. In the first few years the Bank having been driven by immediate necessity of aid to export business and exchange stabilization, there was little thought of its playing a positive part in development projects. Toward the end of the 1930's, however, such projects began to be examined and were in fact materialized. Soon recognizing the importance and desirability of those operations, the Bank started developing them within the limits of its lending authority.

In 1938 the Export-Import Bank authorized the first credit of this type. After consultation with U. S. Department of State and the Export-Import Bank, the Government of Haiti retained the service of a U.S. private engineering firm to assist it to plan and carry out a program of public works in Haiti. The Bank established a credit of $ 5 million in favor of the engineering firm to finance not only expenditures in the United States for equipment, materials and services, but also local costs in Haiti. Over 100 separate projects of the program were designed to improve the island's economy generally and its foreign trade particularly. Such works were included in the projects as roads, port works, communications, potable water supplies, drainage and irrigation and agricultural experimental stations. These improved conditions were followed by an increased investment of U. S. private capital, principally in agriculture on a commercial basis.(29)

Materials for these projects were of course imported exclusively from the United States. But this credit to Haiti marked the first instance in which a portion of the fund was utilized to finance local expenditures which were related to the use of equiment and materials from the United States. This was clearly a new development of the Bank's operation.

The operation of the Bank was also connected with a program of the Inter-American highway construction, which had become an important policy in the middle of the decade. As regards this, in May 1939, the Bank authorized a credit of $ 2 million to the Government of Nicaragua to finance construction of a section of the highway. Furthermore, in June of the year, a credit of $ 3 million was established for highway construction in Paraguay.(30)

Finally in 1939 another development loan was granted to the Chilean Corporation de Fomento de la Produccion. It involved the authorization of $ 5 million. Though the amount of the loan was not so large, it was significant as the first of several loans to development corporations of other American republics.(31) Materials for development projects of that corporation were to be purchased in the United States. Therefore, this loan was surely a measure to promote U. S. export. Nevertheless, the Bank broke new ground for its operation, for in this project the Bank extended credits not to U. S. traders nor to foreign governments or banks but to a private corporation of Latin America.

Thus the Export-Import Bank set about development loans in various fields at the end of the decade. This type of operation was a prelude to larger scale activities of the Bank in the following period. It became clear by 1940 that the existing lending authority of the Bank was too small to realize these development projects on sufficient scale. The necessity of expanding development loans was a driving force which led to the amendment of the Export-Import Bank Act in 1940 and remarkable expansion of the Bank's functions.

Although it was generally recognized that the Bank's operations to Latin Aemrica before the outbreak of the world war were modest and were not oriented toward strengthening economy of those southern republics as a means of assisting in the defense of the Western Hemisphere,[(32)] it should be noted that the Bank had already cleared the way for U. S. government's finance not only to exporters of the country but to Latin American governments and corporations. To be sure the Bank had become an instrument of public lending in support of the "Good Neighbor" policy, dealing with such basic problems as export credits, removal of exchange difficulties and development loans. Now the Bank was about to enter a new stage of further expansion under the impact of the world war.

IV

Soon after the world war broke out in September 1939, the Export-Import Bank came to be regarded as a financial instrument of the Western Hemispheric regional arrangements. The Bank not only expanded its activities but worked out measures to promote American solidarity, particularly to remove German economic interest in Latin America.

According to the Reorganization Act of 1939, the Bank became a branch of the newly created Federal Loan Agency in order to coordinate the Bank's operation with other financial policies.[(33)] In 1940 the Congress acted twice to enlarge the banking authority to meet increasing financial necessity. It should be noted that, different from the case of 1934, in 1940 the idea of the Western Hemispheric solidarity was presented to stress the importance of the Bank. When President Roosevelt requested the Congress to increase the lending authority of the Bank from $ 100 million to $ 200 million in January 1940, Jesse H. Jones, Federal Loan Administrator, stressed its necessity from a viewpoint of U.S.-Latin American relations, maintaining that increased lending capacity would place the Bank in a position not only to aid American manufacturers and exporters but also to promote inter-American cooperation or solidarity.[(34)] The bill was finally approved in March 1940.[(35)]

Following the increase in its lending authority, the Bank responded to additional requests from Latin American countries between April and July 1940. It extended a credit of $ 10 million to Banco de la Republica de Colombia to finance exports from the United States, a credit of $ 2 million in favor of Banco Central Reserva del Peru for U.S. agricultural and manufactured products and a credit of $ 20 million to an Argentine bank for the projects of railways and dam constructions. In addition, during these few months the Bank also extended financial aid to Panamanian government, a Chilean corporation, an agency of Venezuelan government, Ecuador and Dominican governments, and to U.S. exports of railway equipment to Argentina and Brazil.[(36)]

In due consideration of these inter-American financial developments, it was natural that the second meeting of the Ministers of Foreign Affairs, which was held at Havana in July 1940, should take up economic cooperation in the agenda. In his report on the accomplishments of the Conference, Secretary of State Hull said that the American nations should "do everything in their power to maintain and strengthen their own economic position and their mutual economic relationships, and to devise and apply appropriate means of effective action to cope with the problems arising from the present disturbed world conditions."[(37)]

It was against this background of the Havana Conference and the Nazi conquest in Europe that the Congress was requested to increase further the lending authority of the Export-Import Bank. In a message to the Congress. President Roosevelt insisted that the Congress should give prompt consideration to increasing the capital and lending power of the Export-Import Bank by $ 500 million and removing some of the restrictions on its operations "to the end that the bank may be of greater assistance to our neighbor south of the Rio Grande."[38] Secretary Hull stressed that the enactment of the proposed legislation was "essential in order to put the United States in a position to cooperate fully with the other American Republics in meeting these urgent needs of economic defense in the face of the possibilities of serious threats to the peace, security, and welfare of this hemisphere."[39]

As clearly shown by these statements, the government's policy concerning the Export-Import Bank focused on the solidarity of the Western Hemisphere. At Havana the American Republics had agreed on a practical program of defensive action of which economic defense was an indispensible part. The enlargement of the Bank's authority would enable U.S. government to make its appropriate economic contribution to the carrying out of that program which was necessary to the safeguarding of vital interests of the United States as well as Latin American countries. Similar communications of approval were received from Acting Secretary of Commerce Trimble, Secretary of Agriculture Wickard and Acting Secretary of the Treasury Bell. Jess H. Jones, Federal Loan Administrator, also clarified that the main purpose of the bill was to assist the countries of the Western Hemisphere in developing and increasing trade with each other.[40]

The legislation increased the lending authority of the Bank from $ 200 million to $ 700 million and besides authorized the Reconstruction Finance Corporation to make the additional funds available to enable the Bank to make loans "to assist in the development of the resources, the stabilization of the economics, and the orderly marketing of the products of the countries of the Western Hemisphere."[41] Furthermore, it removed the restrictions on loaning money to buy war materials and left the matter in the discretion of the Bank's Board of Directors. Thus loans could be made for military and naval equiment to be purchased in the United States for the defense of Latin America.[42] In this way U.S. government enlarged twice during 1940 the authority of the Bank under the war pressure in order that the Bank might serve as an effective instrument to strengthen inter-American solidarity in both aspects of economy and defense.

V

During the period from 1941 through 1944 marked a great expansion of the Export-Import Bank's activities. While the Bank extended $ 160 million of credits for six years up to June 1940,[43] the total commitment of the Bank amounted to $ 1185 million by May 1944.[44]

Encouraged by the new legislation of September 1940, the Bank did not lose time to develop financial connections with Latin American countries. Between September and December of 1940 it authorized lines of credit to provide dollar exchange to central banks of Brazil, Uruguay, Peru and Argentina. A credit was extended to Venezuela to take the place of German financial interests. Both Cuba and Costa Rica received credits for dollar purchases. Such demand for dollar exchange was serious, for the European monetary market was closed because of the war. The task of relieving this monetary emergency was imposed on the Bank.

But a credit to Brazilian steel industry was equally significant. In June of 1940 Brazil approached the Bank for a credit to assist in financing construction of an integrated steel plant. Without U. S. financial and technical aid, U. S. government feared, Brazil would be forced to depend on Germany and it wolud be certainly a serious threat to the Hemispheric solidarity. As regard this, Sumner Welles, Acting Secretary of State, pointed out to the Federal Loan Administration that "failure on the part of the Government to assist the Brazilians in this matter will in all probability . . . result in the immediate acceptance by Brazil of a German offer to build the plant. German predominance in Brazilian economic and military life would thereby be assured for many years.[45]"

The Bank also concluded that the loan requested would result in advantages to both Brazil and the United States. Aside from immediate export of technical services and equipment, the new steel mill would permit Brazil to devote valuable development of the country. The experience, it seemed to the Bank, supported the promise that the best customers of the United States were industrialized nations and that, as a country developed in all fields of industry, it increased the total of its purchases from the United States. Thus in October 1940 the Bank authorized a loan of $ 20 million to Companhia Siderurgica Nacional (National Steel Co.). Again in 1943 another loan of the same amount was extended for this steel project.[46]

The loan for the Brazilian steel mill was the first extended by the Bank to assist in financing an industrial development in Latin America. In this sense it marked an important precedent. The authorization of this loan was accepted in Brazil and throughout Latin America as tangible evidence of an intention to cooperate in the field of economic development as well as in the defense effort.[47]

While extending three types of operations established in the 1930's the Bank came to place emphasis on military character of its activities from 1940 to 1945. In this respect the Bank advanced funds in 1940 to finance the acquisition of U. S. equipment and services required in a program of expansion of airfields under the cooperation of the War Department. Designed originally for defense purposes, these expanded installations were to serve in the delivering of lend-lease items and ultimately in the prosecution of the war. In 1941 the Bank approved a request from the Haitian government for a credit to finance the experimental cultivation of rubber trees which would be of military importance. Furthermore, at the suggestion of military authorities, the Bank extended a credit to Brazil for the establishment of a factory to build airplane motors and a credit to Mexico to build a refinery to produce high-octan gasoline for aviation purposes. Mexico also obtained a credit to assist in financing construction of a steel plant. Four credits were extended to private companies in Argentina and Bolivia for the purchase of equiment to mine tungsten ores for sale to Metals Reserve Company. Above all significant was the Bank's loan to finance the production and export of iron ore from the Itabira region of Brazil. Originally it was designed to serve emergency strategic purposes, but made a permanent contribution to economic development. It was the Advisory Commission to the Council of National Defense that requested the Bank to consider the means of making this source of iron ore available as a substitute for Scandinavian ore. After a full examination of the problem, the Bank extended a loan of $14 million for this project in 1942, and five-year contracts for the sale of the ore were made with the British government and the Metal Reserve Company.(48)

All these operations of the Bank were realized as parts of the defense program. To be sure the Bank established a new important function of the financial agency for the Hemispheric defence. Of equal significance was the development of private capital investment in Latin America which followed loans extended by the Export-Import Bank.

VI

In the post-war period the Export-Import Bank made a great progress in its scale and activities. On the other hand, however, it appeared to mark considerable retreat as for its Latin American financial policy. This contradictory position of the Bank plainly embodied a defect in U.S. financial diplomacy toward Latin America after the war. In a word the United States missed a great opportunity to establish a financial system of regional arrangement in a similar way to the Rio Treaty of 1947. While the Export-Import Bank grew to be a U.S. "world bank" in its character, it lost the function of financial agency particularly for the Western Hemisphere which had been achieved during the war period.

A new era of the Bank began under the Export-Import Bank Act of 1945. The Bank underwent a reorganization which in many ways changed the extent of its operations. There were four basic changes. First, the loan authority was raised from \$700 million to \$3.5 billion. In due consideration of financial necessity for large scale economic reconstruction in the post-war world, U.S. government attached importance to the role of the Bank and approved an epoch-making increase of its lending authority. Secondly, the act provided for removal of the prohibition on loans by the Bank to governments in default on their obligations to U.S. government. It meant in effect the abolition of the Johnson Act of 1934. Thirdly, the management of the Bank was vested in a Board of Directors and an advisory board was organized to assist in determining broad policies of the Bank. Thus the policy-making process of the Bank was further consolidated. Finally, the Bank was made an independent agency of the government and given indefinite life. The Bank's character of an emergency agency was wiped out.(49)

Each of these changes certainly implied great expansion of the Bank. At the same time, however, the main object of the Bank's polciy turned from Latin America to other areas, as symbolically shown by the abolishment of the Johnson Act. U.S. government necessarily focused on European reconstruction and failed to take into full consideration further development of the Hemispheric financial solidarity.

In contrast to the case of 1940, in the hearings on the 1945 act almost no emphasis was placed on the importance of inter-American financial relations. In insistence on expansion of the Bank's authority both Foreign Economic Administrator Crowley and President Taylor of the Export-Import Bank paid attention exclusively to Europe or world economy in general.(50) Thus it should be noted that, while the idea of regional arrangement marked development through the Rio Treaty or the OAS Charter, it rather retroceded in the field of financial relations. Ironically enough, as the Bank's function was advanced in the following years, its role in regard to the Hemispheric solidarity was enfeebled.

When the Foreign Assistance Act of 1948 was approved to administer the European recovery program, the government stressed the important role of the Bank. The act provided that in case assistance on credit terms was necessary, funds for this purpose would be transferred to the Export-Import Bank and that the Bank would make and administer the credit.[(51)] When the Economic Cooperation Administration's function was transferred to the Mutual Security Agency in 1951, the Bank was given a role as the processing agent for loans under the new agency.[(52)] Thus the Export-Import Bank was fused into a broader mechanism of U. S. world policy. On the other hand, following the meeting of the Ministers of Foreign Affairs of the American Republics in Bogota in 1948, President Truman requested the Congress to increase the lending authority of the Bank by $ 500 million primarily to place the Bank in a position to assist in meeting essential requirements for finance of economic developments in Latin America. The bill providing for the increase was passed by the Senate. In the end, however, no action was taken by the House.[(53)]

Needless to say, the Bank's activities toward Latin American countries in the post-war period should not be underestimated. The Bank in fact consistently extended financial aid to those countries and the amount of transactions increased rather than decreased. During the fall of 1945 the Bank approved a loan to a Brazilian maritime company for vessels construction and another loan for construction of a Chilean iron and steel plant. At the beginning of 1946 there remained undisbursed commitments in favor of Latin American countries aggregating some $ 339 million. In the next two years the Bank authorized new credits to finance exports and various projects to this area totaling approximately $ 108 million. Included were lines of credit for Mexico to finance both the government and private projects, to finance railway epuipment in Brazil, Colombia and Chile, to finance highway construction in Ecuador and harbor barges in Brazil and Argentina. To be sure, in this way, development loans gained more in importance. In the following years, moreover, several loans of significance were extended for Brazilian and Venezuelan power industry, textile and transportation industries in Brazil, flood control and irrigation program in Colombia, Haiti and Ecuador, and a series of economic development projects of Mexico.(54)

After the war the Bank continued to occupy a dominant position in U. S. foreign aid policy toward Latin America. In the period from July 1945 to June 1951 the Bank extended net credits of $ 315 million to this area, accounting for nearly eighty percent of the total foreign aid.(55) This situation lasted till the end of the 1950's.(56)

Nonetheless it was clear that the Bank's activities were not sufficient to meet increasing necessity of economic development in Latin American countries. While the Bank extended loans of more than $ 400 million to Europe in the last half of 1947 and in 1948, Latin America received less than $ 100 million. Although loans to Latin America increased after that, this area accounted for less than one-third of the Bank's total disbursements during the six year period to 1953.(57) The Bank's aid to U. S. exports of steel products to Latin America was generally less than ten percent with exception of Bolivia and Chile, despite the importance of this transaction.(58) What is more important than these statistical data, the Bank lacked definite method to develop financial solidarity in the Western Hemisphere. It was not an agency for regional arrangement of this area but merely a branch of U. S. machinery for world-scale economic diplomacy. Moreover, the Bank was nothing more than a unilateral agency of the United States whose major concern might be to secure its own interests.

In order to meet fully the necessity of Latin American economic development, some radical reorganization of the Bank or new organization of an inter-American bank was certainly essential. It was against this background that the Brazilian program of "Operation Pan America" was presented in 1958,(59) and that the Inter-American Development Bank was established in the following year with the participation of Latin American countries.(60) The Export-Import Bank had played an important part in clearing the way for closer financial relations between the

United States and Latin American countries, but after all its failure to become an agency for regional arrangements made necessary the organization of a new bank exclusively designed for regional development.

Through this brief survey of the Expost-Import Bank some conclusions could be given. The idea of using government fund to support overseas economic expansion was expressed under the economic pressure of the Great Depression. As a result, the Export-Import Bank was organized in 1934. This was certainly an epoch-making policy. American business had found it difficult to carry on foreign trade and investment without some sort of aid from government and, giving up its former attitude against governmental intervention, came to make the most of financial activities of government. We might call this aspect a sort of state capitalism in the field of foreign economy.

The original purpose of the Export-Import Bank did not have any connections with regional arrangements of the Western Hemisphere. In the actual operations during the 1930's, however, the Bank paid most attention to expansion of U.S. interests in Latin America. Moreover, the Bank established major functions including development loans in this period. As soon as the world war broke out, U.S. government intended to develop the Bank's activities, aiming at regional solidarity of the Hemisphere for its object. The expansion of the Bank's authority in 1940 was designed to secure U.S. dominance over Latin American countries. After the war, however, the Bank lost character of a financial agency for regional arrangements for the very reason of its remarkable development toward a world-wide scale of operations. While regional arrangements of the Western Hemisphere were promoted in political and military fields, thus the Bank failed to play a sufficient part in economic field.

But the foundation the Bank had already formed was of significance, for both the financial role of government in economic diplomacy and the idea of financial arrangements on a regional scale had been materialized through the Bank's operations. In this sense, the Export-Import Bank exerted undeniable influence on promoting the recognition of the necessity of an inter-American development bank and made it easier to organize such a regional bank.

Increasing dependence on the dollar, Latin Amrican nations on their part tended to consider financial relations in private channels insufficient and to give more attention to financial operations of U. S. government. Thus this adopted function of government reflected plainly new conditions in international economy. Furthermore, the financial activities of government had close interrelations with other political and military policies. U. S. leaders well recognized that financial "cooperation" or "control" was essential to the security of American interests abroad and the maintenance of American idea of world order. In this sense the utilization of government fund provided the United States with strong and effective weapons for the conduct of her foreign policy.

NOTES

(1) Quoted in Herbert Feis, *The Diplomacy of the Dollar: First Era*, 1919-1932 (1950), p. 6.

(2) Calvin Coolidge, "The real Progress of American Trade," *Nation's Business*, Vol. 15, No. 6. May 20, 1927, p. 11.

(3) U. S. Congress, 72d Cong. 1st Sess., S. 1, To Create the Reconstruction Finance Corporation (1932).

(4) Senate Committee on Banking and Currency, *Creation of a Reconstruction Finance Corporation*, Senate Report No. 33, on S. 1, 72d Cong. 1st Sess. (1932), p. 5.

(5) *Ibid.*

(6) U. S. Congress, 72d Cong. 2d Sess., S. 5336, To amend the Emergency Relief and Construction Act of 1932 (1933).

(7) Hearings before a Subcommittee on Banking and Currency on S. 5336, *Further Unemployment Relief through the Reconstruction Finance Corporation*, 72d Cong. 2d Sess., (1933), pp. 132-133.

(8) Franklin Delano Roosevelt, *The Public Papers and Addresses of Franklin Delano Roosevelt*, compiled by Samuel I. Rosenman, Vol. III (1938), pp. 76-78.

(9) Lloyd C. Gardner, *Economic Aspecst of New Deal Diplomacy* (1964), pp. 34–35.
(10) Hearings before the House Comm. on Banking and Currency on H. R. 4240, *To Extend Functions of the Reconstruction Finance Corporation*, 74th Cong. 1st Sess.(1935), pp. 3, 41–44, 61–71.
(11) Roosevelt, *op. cit.*, p. 77.
(12) Staff Memorandum (Senate Document No. 85), "Legislative History of the Export-Import Bank of Washington, by Raymonde A. Clarke," printed in Hearings before the Senate Comm. on Banking and Currency on S. Res. 25, *Study of Export-Import Bank and World Bank* (hereafter referred to as *Export-Import Bank and World Bank*), 83rd Cong. 2d Sess. (1954), p. 14.
(13) U. S. Department of State, *Foreign Relations of the United States*, 1934 Vol. I (1951), p. 525.
(14) *Ibid.*
(15) *Ibid.*, p. 526.
(16) Hawthorne Arey, "History of Operations and Politics of Export-Import Bank of Washington, "*Export-Import Bank and World Bank*, p. 87.
(17) Elenor L. Dulles, *The Export-Import Bank of Washington: The First Ten Years*, Department of State, Commercial Policy Series, No. 75 (1944), p. 5.
(18) Export-Import Bank of Washington, *Annual Report for 1936* (1937), ante p. 2.
(19) Public Law 1, 74th Cong. (49 Stat. 4). As the Bank was established through the President's authority invested by the National Industrial Recovery Act of 1933, it had to secure a Congressional legislation to extend terms beyond June 16, 1935. Thus the Congress discussed the continuation of the Bank apart from the problems of the NIRA and ratfied the creation of the Bank by a new act.
(20) Staff Memorandum, *op. cit.*, p. 6.
(21) Hearings before the Senate Comm. on Banking and Currency on S. 4204, *Increasing Lending Authorities of Export-Import Bank*, 76th Cong. 3rd Sess. (1940), pp. 30–32.
(22) *Ibid.*, pp. 33–36.
(23) Donald L. Rogers, "Survey of Congressional Committee Hearings Concerning the Export-Import Bank of Washington," *Export-Import Bank and World Bank*, p. 37.
(24) Hearings before the House Comm. on Banking and Currency on H. R. 8837, *Foreign Trade*, 75th Cong. 2d Sess. (1937), p 25.
(25) Dulles, *op. cit.*, p. 9.
(26) Arey, *op. cit.*, p. 91.
(27) Dulles, *op. cit.*, p. 9.
(28) Arey, *op, cit.*, p. 91.
(29) *Ibid.*, p. 90.
(30) *Ibid.*, p. 91.
(31) Dulles, *op. cit.*, p. 10.
(32) Lloyd J. Mecham, *The United States and Inter-American Security, 1889–1960* (1961), p. 153.
(33) Public Law 19, 76th Cong. (53 Stat. 561).

(34) Hearings before the House Comm. on Banking and Currency on S. 3069 (H. R. 8477), *Extension of Lending Authority of Export-Import Bank of Washington,* 76th Cong. 3rd Sess. (1940), pp. 3–50. Hearing before the Senate Comm. on Banking and Currency on S. 3069, *Extension of Lending Authority of Export-Import Bank of Washington,* 76th Cong. 3rd Sess. (1940), pp. 2–28.
(35) Public Law 420, 76th Cong. (54 Stat. 38).
(36) Arey, *op. cit.*, p. 94.
(37) Department of State, *Foreign Relations of the United States, 1940,* Vol. V (1955), pp. 252–256.
(38) Hearings before the House Comm. on Banking and Currency on H. R. 10212 superseded by H. R. 10361, *Increasing Lending Authority of Export-Import Bank of Washington.* 76th Cong. 3rd Sess. (1940), pp. 2–3.
(39) *Ibid.*
(40) *Ibid.*, pp. 3–5, 32–35.
(41) Public Law 792, 76th Cong. (54 Stat. 961).
(42) *Ibid.*, pp. 37–38.
(43) Hearings before the Senate Comm. on Banking and Currency on S. 4204, *Increasing Lending Authority of Export-Import Bank of Washington,* 76th Cong. 3rd Sess. (1940), p. 15.
(44) Hearings before the House Comm. on Banking and Currency on H. R. 4937, *Financial Problems,* 78th Cong. 2d Sess. (1944), p. 460.
(45) Department of State, *Foreign Relations, 1940,* Vol. V, pp. 609–610.
(46) Arey, *op. cit.*, p. 98.
(47) *Ibid.*
(48) *Ibid.*, pp. 99–101.
(49) Public Law 173, 79th Cong. (59 Stat, 526).
(50) Hearings before the House Comm. on Banking and Currency on H. R. 3464 & H. R. 3490 superseded by H. R. 3771, *Export-Import Bank Act of 1945,* 79th Cong. 1st Sess. (1945), pp. 6, 8, 32–33.
(51) Public Low 472, 80th Cong. (62 State. 141).
(52) Public Law 165, 82d Cong. (65 State. 378).
(53) Arey, *op. cit.*, p. 110.
(54) *Ibid.*, pp. 110–112.
(55) Department of Commerce, *Foreign Aid by the United States Government, 1940–1951* (1952), p. 24.
(56) Department of Commerce, Office of Business Economics, *Foreign Grants and Credits by the United States Government* (1959), p. 16.
(57) V. F. Hasenoehrl, "Importance of Exports," *Export-Import Bank and World Bank,* p. 790.
(58) *Ibid.*, p. 791.
(59) "Operation Pan America," *Americas,* Vol. XI (January 1959), p. 2.
(60) Macham, *op. cit.*, p. 382.