The Journal of Commerce

JUN 10 1944

Postwar Export Financing

The international financial conference that will meet in Bretton Woods, N. H., next month will formulate plans for monetary stabilization, and probably for an international reconstruction bank also. Adoption of such proposals, sponsors of these plans have claimed, will not interfere with the financing of regular foreign trade transactions by existing private agencies. A great expansion of foreign trade financing by commercial banks should follow the end of the war, therefore, regardless of measures adopted by the Government to stabilize currencies, to provide relief for liberated areas, and to get economic reconstruction under way in devastated regions.

The development of an acceptance market in New York accompanied the expansion of foreign trade during the decade following the end of the first World War. At its peak, the New York bill market handled a larger volume of transactions than the far-older London market ever attained. Subsequent events proved, however, that this expansion in acceptance financing was accompanied by relaxation of traditional standards, so that a considerable proportion of the dollar acceptances were drawn against goods held in warehouse by drawers, rather than against commodities that had actually been sold by drawers of bills in foreign trade.

There is every reason to expect that New York will again be called upon to finance international commerce on a large scale when the war ends. The total of dollar acceptances outstanding, which has declined to the $100,000,000 level under abnormal wartime conditions, since Lend-Lease has taken over the chief role in foreign trade finance, should increase many-fold as international commerce returns to normal channels.

Should the commercial banks assume the task of postwar trade financing alone, or should they receive assistance from the Export-Import Bank or other similar agencies? In considering this question it is pertinent to note that British acceptance banks are counting upon Government limited co-operation after the war. The annual report of Hambro's Bank, for example, makes a distinction between the two types of risk which arise in financing foreign trade. The commercial risk, involving the buyer of merchandise, is one which the lending banks should assume, it is argued. The transfer risk, involving the ability of all importers in a given country to convert their own into foreign currencies, is held to be one that private institutions cannot readily assess. Even before the war, the Export Credits Department of the British Board of Trade was set up to assume the transfer risk.

The establishment of an international monetary stabilization fund would lessen, but would not eliminate, the transfer problem. In fact, the plan agreed to by the monetary experts of the United Nations makes provision for continuation of foreign exchange controls. Therefore, it might prove desirable in this country also for the Export-Import Bank or some other agency to help carry the transfer risk, especially if efforts to stabilize currencies and free foreign exchanges from artificial controls are not fully successful. Were this done, banks could concentrate on the problem of appraising the credit of individual buyers abroad, as in the past, without having to cope also with the broad transfer problem that is affected by numerous influences bearing no relation to the ability of individual borrowers to pay their debts.