

gested that governments of the rich countries subsidize these loans by appropriating relatively modest amounts for interest subsidy, in recognition of the pressing debt service problems of many underdeveloped nations.

This scheme, as advanced by Governor Horowitz, suffered, in the U.S. view, from two cardinal defects. First, it was generally believed that most of the proposed borrowing would take place in the United States or Eurodollar markets, both of which are the primary current sources for U.S. domestic and foreign capital investment, as well as for the normal borrowings of the World Bank. Second, because the aid was to be administered by an international agency, it would presumably be untied, thereby possibly further aggravating America's balance-of-payments difficulties.

It is not necessary, however, to choose between endorsing the Horowitz proposal as originally advanced and rejecting the principle entirely. The Export-Import Bank of Washington, D.C. lends money to finance exports of American equipment abroad, largely to underdeveloped countries, at rates of interest which reflect the implicit U.S. Government guarantee involved. If the United States wants to maintain and enlarge its trade and investment ties with underdeveloped countries, it is free to authorize a similar institution to borrow funds directly in the U.S. market, to be relent to underdeveloped countries at terms and conditions that would depend on the present and prospective international solvency of the borrower. A modest interest subsidy fund appropriated by Congress could cover the differential between the Government guaranteed market borrowing rates and the lower rates that some underdeveloped countries could afford to pay.

This relending facility should, as long as the United States faces balance-of-payments problems, be tied to the purchase of American equipment.

In addition to building and perpetuating markets for American goods, such a device offers the additional advantage of linking the underdeveloped countries to U.S. capital markets. The Government of Mexico today, for example, borrows certain amounts annually in the New York market. As nations receiving these loans progressively develop their economies, the activities of such a proposed relending agency might be limited simply to guaranteeing bond issues of these countries without subsidy provision, and in the longer run, without intervention by the U.S. authorities.

Ultimately, of course, appropriations for foreign aid and bond issues floated in the New York market to be relent under subsidized interest rates, are simply alternative ways of tapping U.S. capital resources, although the latter method obviously encourages far more trade per dollar of appropriated funds. The method that I am now suggesting allows the tapping of capital markets to be done on the basis of mutual material advantage without the lengthy and, I suggest, frequently unprofitable process of annual congressional hearings, to say nothing of the great temptations faced by the foreign aid agency to allow relatively short term considerations to dominate the allocation of funds.