Eastern European countries. American businessmen, therefore, are placed at a serious disadvantage in exporting machinery, tools and equipment to COMECON countries. Some international executives believe that the unavailability of credit is a more serious barrier to the development of East-West trade than the export controls.

To permit development of trade with Eastern Europe, the United States needs to amend the Export-Import Bank Act passed in 1968 to make credit guarantees and insurance available to these countries. First, the amendment that prohibits Eximbank participation in financing to countries assisting North Vietnam should be repealed. Second, it would be advisable to eliminate the other amendment that prohibits Eximbank from financing exports or guaranteeing export credits unless the President finds it in the national interest to do so. Instead, it would be preferable, in my judgment, to permit the Bank and FCIA to make their services available to Eastern European countries, except where the President finds it to be against the national interest.

J. The Johnson Act and Credits

The Johnson Act of 1934 which prohibits certain private loans and financial transactions with countries in default in payment of their debts to the United States, has been applied to the Soviet Union and other Eastern European countries, except Bulgaria. These countries are in default especially in World War I debts. The Soviet Union for example is deemed to be in default because it owes over 600 million dollars in principal and interest for loans to the Czarist government during World War I and it has failed to settle the Lend-Lease Account from World War II. However, the Johnson Act is not applied to allied nations such as France because they are members of the International Monetary Fund and the International Bank for Reconstruction and Development.

While the application of the Johnson Act may be legally correct, it is questionable on other grounds and seems to be another manifestation of the Cold War. The original intent of the law was to protect American citizens from buying worthless or dubious foreign securities. Thus, the legislation has been applied far beyond its original intent.

For a considerable time, the Johnson Act was applied in such a way that financial institutions felt that anything beyond short term export credits to Communist countries might be illegal, but this is no longer the case. The Attorney General has recently ruled that the Johnson Act does not prohibit extension of credit "within the range of those commonly encountered in commercial sales of comparable character." According to international bankers consulted, the latest interpretation of the Act is such that medium term and longer term export credit is possible to Eastern European countries as long as it is the normal procedure in the sale of particular goods.

Nevertheless, even with the change in interpretation, the Johnson Act can be a Cold War harassment. In the future it could limit some types of financial transactions as East-West trade develops. Since I believe that it does not serve a useful purpose, I believe that it should be repealed.

K. Other Brief Recommendations on East-West Trade Policy

1. The administration of strategic controls should be substantially simplified and streamlined. The present organization and procedures to make decisions are too cumbersome and require the unanimous approval of the inter-governmental committees. For example, the administrators of strategic controls did not remove items such as breakfast cereals, sugar, margarine and shortening, mayonnaise, lubricating oils, detergents, rubber heels, fine paper, cotton yarn, rayon, blankets, carpets and rugs and dishwashing machines from the positive list requiring validated licenses until October 1966. As one change, the rule requiring unanimity should be abandoned. Decisions should be made by a simple majority or a two-thirds vote of the governmental representatives.

2. Even under the present law, it appears that many products can be removed from the positive list requiring validated licenses. A comprehensive re-evaluation should be made of all products subject to validated license control in order to remove the ones of questionable or marginal importance. Goods that are readily available in other Western countries should especially be removed from this control. Along this line, a permanent advisory group of knowledgeable businessmen and private technical and other experts should be appointed to advise the Office of Export Control on simplifying procedures and easing strategic controls.