

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

To Chairman Eccles

Date September 7, 1943

From Mr. Draper

Subject: _____

In view of the discussion today concerning financial and other problems of industry that may confront us during the immediate post-war period, I thought you might be interested in reading the accompanying memorandum which I have just sent to Woodlief Thomas. It covers the smaller but still important part of the subject, and it is for this reason that I am anxious to send the memorandum to you.

S. D. D.

C O P Y

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FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 7, 1943

To Mr. Woodlief Thomas, Assistant Director,
Division of Research and Statistics.

Subject: _____

From Governor Draper

Dear Woodlief:

With reference to today's discussion concerning financial and other problems of industry that may confront the country during the immediate post-war period, I would like to submit the following views:

The problem of credit for industrial reconversion divides itself broadly into two categories:

- 1 - As it affects companies with war contracts;
- 2 - As it affects companies with no war contracts.

This brief memorandum will not discuss credit problems of companies with war contracts for that is a vast subject on which there is a wide variety of thought, and fortunately much of the most effective thinking on this subject is beginning to become crystallized in definite form, such as in the recent liberalized Regulation V and in the plan of the Services to buttress this procedure with legislation as soon as Congress reconvenes.

As to the second problem, it has been estimated by the War Department and others that of the 400,000 (more or less) companies submitting income tax returns, some 240,000 or 60% have war contracts. These include both prime and sub-contractors. There are therefore some 160,000 concerns (40%) which have little or no direct participation in the war effort. Undoubtedly a great proportion of these 160,000 concerns are of medium or small size. Of these 160,000 concerns, a certain percentage—perhaps 50%—have been benefited by wartime conditions and hence should have little difficulty, from a financial standpoint, in readjusting to peace-time production. However, the other 50%, some 80,000 concerns, may find themselves in need of financial help when the war ends. For the most part, they are the ones which have been badly crippled or shut down as the result of the war.

The question is—what financial aid, if any, the Government is prepared to offer to them, not as a subsidy but on a repayable basis, so as to allow them to stand on their own feet in the future?

Before answering that question definitely, we have some interesting evidence that bears directly upon this problem. We have collected (but not published) the total figures of our experience with Section 13B.

As we know, Section 13B was not a satisfactory instrument from various standpoints. The language of the statute was restrictive and because of more liberal powers given the RFC we were always at a disadvantage in functioning effectively in this field. Nevertheless, the record shows that from 1934 to 1943 we authorized the granting of some \$475,000,000.00 in loans and after ample provision for overhead, charge offs and bad debts, we find ourselves in 1943, still in the black on this entire operation.

With these and other facts in mind, it seems to me that the most effective financial assistance that we can give to the business concerns in question is to provide for them the Regulation V procedure, which is, in principle, nothing much more than the well-known 13B commitment. Banks are familiar with Regulation V, the resistance to it in war time is practically nil and I think we are safe in assuming that very little, if any, more resistance would be encountered in time of reconversion.

If we should decide to favor action of any kind in this field, the most important problem of policy at this time would be to answer the questions—Where would the funds come from with which to operate under a modified Regulation V procedure and what would be in general the legal setup?

There are various suggestions on these points. As to capital, the one that seems preferable to me is to have a capital of \$139,000,000.00 furnished out of Treasury funds earmarked in 1934 for a somewhat similar purpose—these funds to represent the capital of a Federal Reserve Reconversion agency. There should also be included a provision that, in case of need, debentures could be sold to the Treasury up to a certain number of times the original capital. As in Regulation V, the central clearing house for policy decisions of the agency would be the Board of Governors but all problems of operation, etc., would be in the Federal Reserve Banks exactly as at present under Regulation V.

The more one studies this problem, the more one seems to be convinced that the above approach is the simplest, the most effective and the most easily understood by industry and banking that could be devised at this time.

Yours sincerely,