

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: April 19, 1934.

To Mr. Eccles.

FROM Mr. Viner.

Mr. Oliphant might be interested in the Dunn memorandum
and in my notes thereon. I suggest that you send this mater-
ial to him.

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N. R. A. memorandum re Industrial Credit Proposals

I. Dunn takes what I regard as obsolete view with respect to importance of short maturities as contributing to "liquidity" of commercial banks, and to role played by inadequate liquidity of commercial banks in getting them into trouble. For banking system as a whole, it was excessive pursuit of liquidity which got them and the country into trouble. There can not be liquidity for a banking system as a whole except through rediscounting facilities.

II. I see no objection to Federal Reserve control of the new organization.

III. Priority of lien on assets to new creditors a desirable feature, provided debtors can be forced into liquidation only with consent of substantial proportion of old creditors.

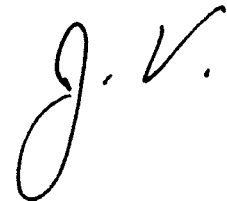
IV. Canadian provision for priority of bank claims leads to reluctance of Canadian manufacturers and distributors to give credit to their customers, and makes Canadian bankers too ready to force debtors into insolvency when they are slow in meeting their obligations. It needs safeguard such as that suggested above. The proposal of Dunn that subordination of claims in favor of new creditors be subject

Memo to Mr. Eccles - 2.

to agreement by 65 per cent of prior creditors, does not adequately take care of this. There should in addition be required some measure of consent from old creditors both to subordination of claims and to forced liquidation in case of subsequent default in meeting obligations.

V. To wait for restoration of working capital from profits is probably to wait too long. What is important is whether would-be borrower still has an equity. If so, it is sound policy to facilitate his borrowing funds with which to maintain, or extend, his operations, whether these are working-capital funds or not.

VI. Other suggestions of Dunn seem deserving of consideration.

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