

W. RANDOLPH BURGESS
55 WALL STREET
NEW YORK

April 10, 1944.

Dear Marriner:

Thank you for writing me so fully and carefully on the lending question, in which I am greatly interested, and in which I have had a chance to do some work since the March issue of our bulletin was published, and since I left the chairmanship of the War Finance Committee here.

Let me say first that I regret the mistaken impression as to the experience of the Federal reserve banks with 13b loans, which was conveyed by quoting the 1938 statement alone. In partial extenuation, however, let me say that we have not been able to find later published information as to the 13b experience.

The record of these loans has been improved in recent years by recoveries attributable to the war boom. I wonder if the earlier experience is not more typical of what to expect after the war.

To come to the basic question, I am wondering what evidence there is of a sound need for new small loan facilities, additional to those which private enterprise may reasonably be expected to supply. Such surveys of the small business problem as I have seen have not made a convincing case, to me, that more credit institutions are the answer. Isn't it axiomatic that there will always be people whose ideas and aspirations outrun their ability to obtain credit or equity capital and that they will always be heard from? Whenever the public ear seems to be especially receptive their voices will be particularly loud. Their success in making themselves heard, however, does not prove that they have a sound claim for credit. I am reminded of something which occurred here just the other day. A local exporter made a statement which got into print to the effect that our export

business is burdened by a lack of trade credit facilities. By coincidence the statement appeared next to an ad of ours devoted to foreign trade financing. We invited the man to specify in what areas or trades these facilities were lacking. The result was a blank, he could answer nothing.

I agree that there are difficulties in the way of obtaining equity capital and capital loans which have not existed in the past. On the other hand, I wonder whether the difficulties will be as acute in the future. Most of the good thinking on the tax question favors some relief from the double taxation of corporation earnings, - as earnings and as dividends. With the amount of money accumulating in the country and with the payments to be made to veterans, most discharged soldiers should be able to raise the money for small enterprises out of their own resources and those of their families and friends.

We can count on some liberalization of banking attitudes toward small loans as compared with the late '30's, when there was a carryover of depression and banks were struggling to make up their capital losses. The spread of personal loan departments and term lending over the country has been impressive. The advertising which the small loan problem is getting will itself induce attention to it, and I believe we shall find banks and bankers' associations not unprogressive in dealing with it up to the limits of what they can do. As you know the A. B. A. is at work on a program of education of banks in making varied forms of loans, especially term loans. It will be one of the main topics at the Executive Council meeting next week.

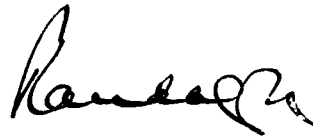
With what you say as to the relative undesirability of other government proposals as compared with the Federal Reserve Bank proposal,

I quite agree, - assuming that a choice must be made, which I am not yet willing to concede. I sat in, as you know, on the job which the New York Reserve Bank did in this field and have a very high regard for its value. The directors and the business committee were distinctly liberal in their approach. That window is still open, and I think 95 per cent of the special cases that come to the Reserve Banks and deserve credit can be taken care of without any change in the law. The banks will take care to-day of many cases that had to go to the Reserve Banks in those days. As compared with other governmental agencies the Reserve banks have, of course, the advantage of competence and continuity of administration and independence from party politics. They have the benefit of the judgment of some very competent business men and bankers.

At any rate I agree our discussion in the bulletin was inadequate, and I'll see if we can run another article before long.

With best regards,

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Ransdell".

Hon. Marriner Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.