

WAR DEPARTMENT

HEADQUARTERS, SERVICES OF SUPPLY

WASHINGTON, D. C.

Jay L. Taylor, Major, A.U.S.
Liaison Officer, Fiscal Division
Federal Reserve Bank Building
Los Angeles, California

November 27, 1942

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

Dear Marriner:

Regulation V loans are working so smoothly in this area and have met with such widespread approval among the business men and bankers, that it occurred to me some time ago that foreign financing after the war might be carried on by somewhat the same principles as those under which Regulation V operates.

Instead of the Government putting huge sums of money into various foreign countries to finance those governments' operations, why wouldn't it be better for banks and investment companies to lend money directly to the various businesses operating in foreign countries and let our Government guarantee a percentage of the loan exactly as they do in the present V loans. Wouldn't this be a much better plan than to have the two governments handle all the money? You would have the benefit of the management of the bankers and investment bankers, and have the Federal Reserve System supervising the entire operation for the United States.

This would, of course, place in every foreign country in which loans were made, representatives of the different investment houses who would have a vital interest in the country in which they were operating. They would make friends not only with the borrower but with a great many other people in the country and they, in turn, would be able to bring back to the United States first hand information concerning that country's financial and political problems. These Americans would live in all of these foreign countries, raise their children there and in a few year's time we would have many Americans thoroughly trained in foreign affairs.

I know how greatly interested you are in affairs of this kind and, perhaps it is too early for me, or any other army officer, to be thinking about the end of the war, but I wanted to pitch this into the pot for what it is worth. Hope you find time to tell me what you think of the idea.

Sincerely,

Jay L. Taylor

Jay L. Taylor, Major, A.U.S.
Liaison Officer, Fiscal Division



December 4, 1942.

Major Jay L. Taylor, A.U.S.,
Liaison Officer, Fiscal Division,
Federal Reserve Bank Building,
Los Angeles, California.

Dear Jay:

I have yours of November 27 in which you suggest that Regulation V loans or some similar mechanism might be used in the post-war period to stimulate lending by investment bankers and others in reviving our foreign trade.

Your suggestion is interesting and, from the point of view of mechanics, it would seem to be entirely feasible. There is, however, a policy question which seems quite formidable to me.

Under Regulation V it is universally assumed in all cases that the Government is benefited by the production for which the loan is made. This assumption does not hold good in peace-time, since there are many enterprises in both domestic and foreign business from which the Government does not benefit. In fact, there are many ventures which the Government might well wish to discourage. If this problem were met by requiring that some representative of the Government certify that the business to be financed would be in the public interest, I think you will agree that it would require a staff of technicians in almost every field and consequently the organization would be very top-heavy and expensive.

I don't wish to discourage your ambition to figure out ways and means of stimulating business in the post-war period. I am glad that you have the imagination to look ahead and to make suggestions.

With best wishes, I am

Sincerely,

(Signed) M. S. Eccles

LC:jg
[Signature]