

9/11-'44

Mr. Eccles -

They never learn -
please return to me -

11

**FEDERAL RESERVE BANK
OF ATLANTA**

OFFICE OF
PRESIDENT

September 8, 1944

Mr. Ronald Ransom, Vice Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Governor Ransom:

For your information I am enclosing copy of a resolution adopted by the Georgia Bankers Association at an extra convention held in Atlanta September 4.

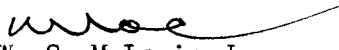
As usual, this convention was dominated by a minority group, and members of the Association who did not agree with the speakers, and did not approve the resolution, did not say a word. It may be interesting, however, to note that after the adjournment of the convention several of the members of the Association visited the Smaller War Plants Corporation office for the purpose of obtaining commitments or guarantees of loans.

You will note that Bob Hanes and Walter French were the out-of-town speakers, and while Bob Hanes carried out his assignment by opposing all Government lending agencies he was not nearly as violent as French who devoted most of his talk to denouncing the Murray Bill, which he referred to as "the Eccles Bill", and who made frequent references to Mr. Eccles' testimony during the recent hearing on the Bill.

Just to be contrary, among other reasons, I asked that the Federal Reserve Bank's vote as a member of the Association be recorded as opposing the resolution as, otherwise, the record would have shown that the vote was unanimous even though not more than 20 to 25 per cent of the members of the Association present actually voted.

Very truly yours,

Enclosure -1


W. S. McLarin, Jr.,
President



POST-WAR SMALL BUSINESS CREDIT CONVENTION
GEORGIA BANKERS ASSOCIATION
Atlanta, September 4, 1944

RESOLUTIONS ADOPTED

RESOLVED: That the appreciation of this convention be expressed to the Georgia Bankers Association and to its president David Arnold for taking the initiative in calling this extra convention at this opportune time and as an example for the whole United States to follow, and be it further

RESOLVED: That the thanks of this gathering be expressed to the chairman of the Post-War Small Business Credit Commission, Mr. Robert M. Hanes and to the Deputy Manager of the American Bankers Association, Mr. Walter B. French, to Messrs. Young and Lewis, members of the commission, and to Mr. Herman Jones for their forceful presentation of their respective subjects, and be it further

RESOLVED: That this extraordinary convention go on record in approval of the arguments advanced against future participation of the government in the business of making, insuring, guaranteeing loans in any form; more particularly the Murray Bill, the Taft Bill and the bill proposing to vest the Federal Reserve System with the power of guaranteeing loans, and be it further

RESOLVED: That the banks of Georgia hereby again pledge themselves to fulfill all legitimate demands for credit by competent persons, firms, and corporations, and be it further

RESOLVED: That this new declaration of policy confirms the attitude and position that banks have long occupied for granting and seeking all legitimate applications for credit; we hereby deplore the exaggerated form that has been imputed to the unfilled demand for credit, and be it further

RESOLVED: That copies of this resolution be transmitted to Georgia's senators and representatives in Congress with the urgent request that they use every effort to defeat any present measures and forestall any future measures looking to the further socialization of credit. Respectfully submitted, Willis Johnson, chairman, A. A. McCurry, Lee Hudson, Carl Floyd.—Committee



S e c r e t a r y

The Riggs National Bank

of

Washington, D. C.

POSTAL ZONE 13

ROBERT V. FLEMING
PRESIDENT AND CHAIRMAN OF THE BOARD

CHARLES C. GLOVER, JR.
VICE CHAIRMAN OF THE BOARD

September 13, 1944

IN REPLYING PLEASE QUOTE INITIALS

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

P E R S O N A L

Dear Marriner:

Referring to our recent telephone conversation relative to the speech made by Walter French, Deputy Manager of the American Bankers Association, before the Convention of the Georgia Bankers Association on September 4th, as you know, I talked with Hal Stonier on this subject following the advices you received from the President of the Federal Reserve Bank of Atlanta. I have now received a copy of Walter French's address and I have also ascertained that he made no statements off the record beyond what is in the printed text of the address. Apparently, the President of the Federal Reserve Bank of Atlanta did not thoroughly understand what he had said, and while the speech, generally, is in opposition to the continuation of any guarantees by government, its references to you are rather complimentary.

Secondly, there is no confusion with respect to stating that the Murray Bill is the Eccles Bill, as I understood from our telephone conversation. Personally, I am in favor of the Wagner Bill, as you know, but French's address was certainly within the framework of the resolution of the A.B.A. which was adopted, in my opinion, more on the grounds of long-range fundamentals than political considerations.

I would appreciate your taking a few minutes to read this address and return it to me after it has served your purpose.

Dr. Stonier has advised me that he knows the Association is going along with the "T" loan program and other proposals to settle the problems arising out of the war and the peace but, of course, unless the Association changes its policy in Chicago the standing resolution precludes endorsement of the Wagner and Spence Bills. I am hopeful that further consideration will be given this subject, with particular reference to the Wagner Bill approved by the Baruch-Hancock Report and yourself, at the forthcoming convention.

Yours very sincerely,



BANKING'S POST-WAR CREDIT PROGRAM

Address by Walter B. French, Deputy Manager,
American Bankers Association, before special
meeting of the Georgia Bankers Association,
Atlanta, Georgia, September 4, 1944

During the past year thinking leaders have often warned that if banking is to survive as a private enterprise, we must get back into the risk business. During the past eleven years our concept of credit has changed. Because of the rapid changes in our economy, from the trying days of the early 1930's following the bank holiday to the critical times of the present, with the country engaged in a global war, bank credit has sought means and devices to protect itself. Such a period is discouraging to the entrepreneur. Venture capital is surrounded with all kinds of safeguards, waiting for a better day. Interest rates become lower and lower, and none but almost riskless loans are made. Government enters the field of credit and competes further with private enterprise. It does this in the beginning because there is an apparent need for the additional credit. After the need has been met, the experience is that the government continues to supply the credit.

Private credit cannot compete with government credit on a basis of either risk or rate; so various schemes are developed to use private capital with government guaranties. Under this arrangement, the borrower enjoys the same low rate as when government credit is extended directly, and private capital is compensated for its share of the low rate by the elimination of most, if not all, of the risk. The continuance of such a credit arrangement would be undesirable and would eventually destroy banking as we have known it in this country.

Many students of the subject say that without a completely free banking system a country cannot have a system of free enterprise. To retain free enterprise in its broadest sense is the very reason we are at war today. That system is the only one we Americans know. It is our very lifeblood; it is the incentive of competitive enterprise that has made us a great nation.

We must get government out of private credit as quickly as is consistent with sound economic policy. That will not be an easy thing to do because we soon lose

sight of why these government credit agencies were created and what particular job they were organized to do. After the job has been finished, they become permanent fixtures. Some part of our economy always demands that they be allowed to continue to operate—business and agriculture, for example, because the credit appears to be cheap and in many cases easy to obtain. Certain groups in banking that are permitted to participate want to see these agencies continued because they eliminate most of the risk, if not all of it. If we would only take the time to think this thing through, we would soon see that the continuance and expansion of government credit agencies would eventually destroy our private credit system.

Government must and should come to the aid of its economy when the need is there. After the need has been supplied or the crisis is over, government should withdraw from private business and go back to running the government. If it is determined by responsible, unbiased authority that these government credit agencies are still needed, they should at least be required to operate on a self-sustaining basis. As a general rule, subsidized credit encourages a form of competition that is unfair to legitimate business. By legitimate business is meant business that pays its own way and asks favors from no one.

Already demand is being made in some quarters that the V loan principle be continued after the war. The numbing effect of no risk would lead to a decadent credit system, for we cannot have healthy business without a strong, unmoled flow of private credit. We must have borrowers who are willing to pay for money at rates commensurate with the risk they offer and private lenders who are ready and willing to assume the risk. That favorable situation, so necessary to our economy, cannot be brought about as long as we have government competition in the credit field, either on a direct basis or through guaranties.

After every financial crisis similar to the one we experienced in 1932 and the subsequent years of depression, reforms are instituted which are often too rigid. However commendable the original motives, the restrictions must be relaxed when they

interfere with venture capital and hamper the economy. Expedients, such as government credit guaranties and active participation by the government in the credit field, are encouraged. Such expedients are far more harmful than the original situation. All credit involves some risk, and when we try to make it riskless by various devices, we are attempting the impossible and at the same time impeding the progress and orderly development of private enterprise.

Although this problem has been a matter of great concern to private credit sources in recent years, nothing more than recognition of the problem was possible because we are a nation at war. The main functions of government during an emergency period are regulation, taxation, and control—the very antithesis of the prerequisites to free enterprise. The banking system is used to the full in assisting the government in its war program. Eighty per cent of all government bonds held by individuals have been sold through the banks. Banks are an essential part of the rationing program. Banking units have been set up in hundreds of congested war production areas to handle the banking needs of war industry and workers. The successful prosecution of the war still takes a major part of our time and it should, until the war is successfully concluded.

But at the end of the war, what? Should government, with a terrific debt probably reaching three hundred billion dollars, be expected to continue assuming the risks of business and banking? The Association expressed itself on this point last September by the following pronouncement on a resolution that had been adopted:

Banking has made an impressive volume of war production loans under guaranties, and a substantially equivalent volume of its own responsibility. We now declare our belief that government loans or the guaranty of loans is not only unnecessary for the financing of post-war commercial enterprise, but is actually contrary to sound financial policy and the best interests of the American economy.

If the whole field of credit is surveyed in an attempt to anticipate demands that will be made upon it after the war by both consumer and producer, most informed persons will agree that adequate credit will be available from private sources and that there will be no credit problem. Ample credit will be available for the consumer.

Nine thousand banks have indicated that they will make this type of credit available after the war. Big business will have no credit problem; many sources are available to them. Small Business should have no credit problem after the war, and yet that is the one group that is getting special attention from federal legislators and government bureaus which want to see government expand its activities in the field of private credit.

The credit needed by legitimate small enterprise has always been provided by the private credit system of this country but now certain groups in Congress, in both major political parties, are making a bid for the favors of small business. This is indicated by legislation which has been introduced over the past few months, for example, S. 1918, introduced by Senator Wagner; S. 1777, introduced by Senator Taft; and S. 1913, introduced by Senator Murray.

S. 1918, introduced by Senator Wagner, which is favored by Governor Eccles of the Federal Reserve Board, would continue the V loan guaranty principle by enabling the Federal Reserve banks to guarantee loans made by banks and other financing institutions to business. If we are to conform with the policy of the Association as expressed in the resolution passed last September, the Wagner Bill, and all similar bills, must be opposed.

Last week I had the opportunity of attending the hearings in both the Senate and the House on the Wagner Bill. Governor Eccles was the only witness at both hearings and he advocated the passage of the bill. He did an able job and presented a strong case. Before he began his formal testimony, he offered a number of amendments to the Wagner Bill in its present form, which made his case even stronger. These amendments would eliminate about all of the objections to the bill except the all-important one—the principle of government guaranty of private credit. Briefly, the amendments were to limit the aggregate of guaranty to four times the paid-in capital, which would give the Federal Reserve Board a total guaranty fund of about \$600,000,000. Mr. Eccles suggested including a ceiling of 5 per cent to fix the maximum rate that may be charged.

He suggested that the life of this guaranty fund be limited to five years, that the activity then be terminated and all monies be turned over to the United States Treasury.

One aspect of this proposal which Congress would probably like is that it calls for no new appropriation. The capital of \$139,000,000 is already provided for and the Treasury is authorized to pay up to this amount to the Federal Reserve banks for loans they were to make to business and industry under Section 13b of the Federal Reserve Act, and never did.

The bill has one other feature that differs from all other similar measures in that it prohibits any loans being made direct by the Federal Reserve System. All loans must originate in banks and other financing agencies and the maximum limit of the guaranty is set at 90 per cent of the loan.

As I say, the amendments overcome just about every objection except the most important one of permitting a principle to expand that may prove to be the opiate that will put private bank credit into a state of impotency forever. Give the banks of this country five years under a government guaranty system and many of them will demand it forever. FHA Title I modernization loans are a good example. The great majority of banks could have assumed these risks without insurance of any kind and made money.

The point was also made that this bill would carry the V and VT principle into the post-war years and emphasis was placed on how well the V loan idea has worked. In my judgment, there are two things wrong with this argument. First, the V loan was a necessary war emergency measure because loans were made by banks in amounts that were far above their lending limits and to borrowers in amounts all out of proportion to their own equity. These loans were in reality credit granted by the United States Government to business, and the use of the credit was facilitated by the credit machinery of the nation's banks. In all of this operation it must be remembered that the bill is being paid by one source, the United States Government.

It must also be remembered that, although the figures on V loans, with commitments of over 6 billion dollars and actual loans outstanding of over 2 billion dollars, look impressive, almost all of this was done by the 500 largest banks. Over 14,000 banks in this country have made no V loans, and yet all of them have made some loans for war production on an unguaranteed basis. The 500 largest banks, as a matter of fact, had outstandings of war production loans on an unguaranteed basis, last December 31, of 1 billion 500 million dollars.

No, the V loan experience is not a good reason for continuing a principle foreign to a private credit system. That operation was created for a specific purpose during a national emergency and, when that emergency is over, every emergency measure that was necessary during that critical period that interferes with the system of private enterprise should be discarded.

During Mr. Eccles' testimony on the Wagner Bill the frequently brought out in both hearings that S. 1918 and its companion bill are necessary if banks are to avoid bank examiners' criticism on the loans they will be obliged to make in the post-war period. If we were out to make bad loans, that might be a good argument, but the day the banks of this country make bad loans or encourage unsound risks, on that day the very purpose of our Post-war Small Business Credit Commission has been defeated. If the purpose of this criticism is to dictate the terms and conditions under which loans will be made, then I think both Mr. Crowley and Comptroller Delano should issue statements to their examiners on the subject. Both of these gentlemen have expressed themselves on this phase of the problem.

In the annual report of the FDIC last year, Mr. Crowley said:

One of the chief objectives of bank management and bank supervision must be the uninterrupted operation of banks able and willing to bear the risks inherent in the provision of credit. While risks can be kept low by the adoption of standards which have been shown by experience to provide reasonable assurance of fulfillment of obligations, such standards must be conceived of in terms of the requirements and capacities of business. They must be adapted to changes in the business structure and in business methods, otherwise business will have to seek increasing proportions of its credit elsewhere than at the banks. It is important, therefore, either that banks maintain adequate capital margins and provide

reserves on a regular basis for the losses inherent in the financing of business and agriculture, or that they provide some means of transferring risks to others.

Comptroller Delano, in his annual report to Congress dated August 15 last, said:

~~The~~ The formation of credit pools to facilitate term loans to business and an active campaign by the American Bankers Association for the education of its members in their approach to problems of transition are healthy signs of determination to meet the issue. . . .

Adding that the banks will have the responsibility of prudently handling the assets in which the deposits are invested and by the purchase of which they were largely created, Comptroller Delano continued:

But the major responsibility of the banking system, once the economy is released from the bondage of war, will be the search for lending opportunity in a society of free enterprise and personal initiative. . . .

It is consistent with all the rules of good credit practice to advance credit under terms and conditions that can be met by the borrower, whose willingness and ability to meet those conditions have satisfied you^r, rather than to accept short term paper with some undisclosed renewal scheme just to circumvent the objections of an uninformed examiner. Both the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation, as heads of the two largest supervising groups, can correct this situation speedily. It seems ridiculous to have a good loan on your books and, in order to have a bank examiner agree with your judgment, find it necessary to go into partnership with some government credit agency. The experience we have had with small business loans in our instalment loan departments is proof enough of how much more satisfactory it is to both business and banking to apply the term loan principle to loans when the application for credit indicates that such a procedure is desirable.

Of the other two bills so far introduced, the Taft Bill, S. 1777, would set up a division in the Department of Commerce not only to guarantee loans made to small business by banks and other financial institutions but also to supply equity capital in the form of common and preferred stock.

It is rather difficult to follow the line of reasoning that advocates this type

of measure with the argument that it is designed to save individual enterprise when the government, by reason of the money it invests, is a substantial part-owner. It seems obvious that you cannot go into business partnership with the government and retain the freedom necessary to individual enterprise.

S. 1913, the Murray Bill, seeks not only to prolong the life of the Smaller War Plants Corporation but actually to expand its facilities. That is the real threat to the private credit system of this country. Recent material issued by this government corporation offers to do just/everything^{about} for small business except provide capable management and assure profits. The billion dollar capital which S. 1913 would provide for the Small Business Corporation, if it should become law, would make it by far the largest credit agency in the country. This huge corporation is advocated solely for the credit needs of small business.

If we are to maintain the benefits of our economy, we need small business, lots of small business. But we need small business in its true, legitimate form—enterprise that creates for itself, starting from a small beginning and growing strong—healthy business growth that comes from experience and capable management. The worst possible competition for legitimate small business would be competition from business operated by any credit agency that attempts to create small business by the simple process of handing out money and credit. Under such a scheme management could not possibly be tested or tried, which is absolutely necessary if great damage is not to be done to our economy. Any agency that makes possible easy credit on long terms would be unfair to legitimate business because it would place money in the hands of some who are not capable of good management. An agency that would supply the buildings and machines to a new business on any free and easy basis would take away from enterprise the chief reward of good business judgment. Small business which begins on a "shoestring" and does a little better year after year, making money during good times and surviving bad times, is what makes American business the important influence it is in our economy.

Competitive enterprise is difficult enough under fair and legitimate conditions. Under such a system the weaklings eventually are removed from competition. They either have sense enough to give up themselves or they are forced into bankruptcy. Those businesses which survive do so because they have demonstrated by actual experience that they can successfully meet and overcome the risks involved. All business must have private credit available always or in most cases it cannot survive. The credit needs of sound business must be supplied and should be supplied by the private credit system. If any credit agency is permitted to develop that will make loans on any but a sound basis, that will make money available to incompetents with little regard for those already in the field, that will be the end of small business in America. As one industrialist recently put it, "We can meet any kind of competition in my business but bankrupt competition." No legitimate business can.

The question to be determined very soon is whether the credit and capital available in this country are ample for the needs of business. Recent surveys indicate that they are more than adequate, and further that those who have the responsibility of making this credit and capital available to business are ready, willing, and anxious to do so. In order to bring about a more favorable situation, some new legislation is needed--not legislation that would create more government credit agencies but legislation that would encourage available capital and credit to seek their proper markets. Two changes in existing laws should be made very soon--modification of the SEC regulations so that capital for small businesses can be made available without making it necessary to go through all the formality of the larger set-ups, and modification of income tax laws as they apply to business, especially small business. The incentive to invest money and do business is profit. Small business especially should be permitted to make a good profit. The two legislative changes suggested would encourage legitimate small business, not subsidized incompetence sustained by a free and easy credit corporation.

Whatever may be the needs of business enterprises, both small and large, after the war, money and credit are available from private sources in amounts far greater than will be needed. There is only one serious problem facing the private credit field not only after the war, but now and always, and that is the interference with its normal functions by government restraints and government agencies.

September 15, 1944

Confidential

Mr. W. S. McLarin, Jr., President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mac:

I talked to you on the telephone yesterday in regard to your letter of September 8, particularly with respect to Walter French's talk before the Georgia Bankers Association. On its receipt, I showed your letter to Mr. Eccles, and he shared my feeling and yours that these people were going rather far out of their way in attacking a legislative proposal, which, incidentally, is not "the Eccles Bill" but technically the Wagner-Spence Bill. Of course, it is true that Mr. Eccles supported the proposal, because he is in favor of it, as am I.

In the meantime, as I told you, Haynes McFadden had been in on a personal matter. He had been disturbed about Walter French's Atlanta talk and had told French so. He felt that it was not what he called a "constructive" discussion.

After reading your letter, Mr. Eccles took the matter up with Mr. Robert V. Fleming, because of his past association with the American Bankers Association and also because he was immediately available. I am enclosing - for your own personal information - a personal letter under date of September 13, 1944 from Mr. Fleming to Mr. Eccles, which I will greatly appreciate your treating as confidential and returning to me after you have read it.

I am also enclosing the text of Walter French's Atlanta speech. If you could get a transcript of what he said in Atlanta, it would be interesting to compare the two. However, Haynes McFadden felt, after looking over the enclosed text, that Walter French apparently stuck pretty close to his prepared speech. His prepared speech does not impress me very favorably and, as you said to me on the telephone last evening, emphasis and manner of delivery could play a large part in the impression you and others would gain from hearing him speak.

For your own information, the Surplus Property Act (H.R. 5125) contains the following provision in Section 14(f):

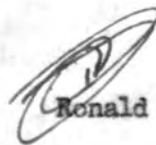
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"The Smaller War Plants Corporation is hereby authorized, for the purpose of carrying out the objectives of this section, to make or guarantee loans to small business enterprises in connection with the acquisition, conversion, and operation of plants and facilities, and, in cooperation with the disposal agencies, to arrange for sales of surplus property to small business concerns on credit or time bases."

Apparently, this language is broad enough to cover almost anything. It passed the Senate and we understand this provision has been approved by the conferees. Undoubtedly, with this increased authority, the Smaller War Plants Corporation will have no difficulty in getting an appropriation for an increased capitalization and, as a matter of fact, a bill providing \$200 million additional capital has already passed the Senate and is pending in the House. With this type of threat hanging over the bankers' heads, they are certainly foolish in not supporting the Wagner-Spence bill and in criticizing a sincere and an intelligent effort to provide something that may contribute to maintaining the banking system and eliminating competition of Government agencies.

After you have read the enclosed text of Walter French's speech, please also return it with your comments.

Sincerely,



Ronald Ransom

Enclosures 2

RR:ac

FILE COPY

**FEDERAL RESERVE BANK
OF ATLANTA**

OFFICE OF
PRESIDENT

September 30, 1944

Mr. Ronald Ransom, Vice Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D. C.


Dear Governor Ransom:

I am returning herewith the letter addressed to you by Mr. Fleming and the copy of Mr. French's address referred to by Mr. Fleming.

I have read the prepared address carefully and while I am positive that Mr. French departed considerably from the prepared address in his speech here, particularly in his discussion of the Wagner Bill, as well as the Murray Bill, I cannot remember exactly where and how his comments differed from the prepared speech.

While I have been informed there is no stenographic record of his speech, I will make further inquiry and if I find there is a copy in existence I will obtain one and send it to you.

Very truly yours,


W. S. McLarin, Jr.,
President

Enclosures

