M. S. Eccles' Statement
Presented at meetings of Federal Advisory, Presidents and
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LEGISLATION TO FINANCE BUSINESS IN THE POSTWAR PERIOD

I would like to review briefly the pertinent facts in connection with legislation now pending for the financing of business during the reconversion and postwar period, especially the bill to authorize Federal Reserve Banks to guarantee loans and the bill to expand the authority of the Smaller War Plants Corporation.

It has long been obvious that Congress would enact legislation to assist small business and particularly to aid in the financing of small business. The only question has been and is what kind of legislation would be enacted. The Smaller War Plants Corporation was created by the Act of June 11, 1942, which passed both houses of Congress without a single dissenting vote. Under this law, the Corporation was given a capital of $150,000,000 and was authorized until July 1, 1945 to make or participate in loans for war and essential civilian purposes. For some months past various proposals have been before Congress to enlarge and expand the authority of the Corporation.

In this connection, the Baruch Report recommended that the lending authority of the Smaller War Plants Corporation "be extended to permit short-term loans to assist small business in the 'change-over' from war to peace". The Murray Bill (S. 1913), introduced last May, provides $1,000,000,000 of capital for the Smaller War Plants Corporation and extends its existence until July 1, 1947. It gives to the Chairman of the Corporation, as distinguished from the Corporation itself, broad authority to make or guarantee loans both for reconversion and for peacetime operation. It also would permit the Corporation to make arrangements to provide small business concerns with the benefits of patent rights acquired by the Government or by private individuals and to make available to such concerns engineering and other technical services and educational facilities of the Federal, State, and local Governments.

The bill, H.R. 5125, providing for the disposal of surplus Government property, contains provisions, already approved by the Senate and the House conferees, giving the Smaller War Plants Corporation broad responsibilities with respect to the needs of small business for such surplus property and authorizing the Corporation to purchase surplus property for "resale or other disposition" to small business. For such purposes it authorizes the Smaller War Plants Corporation to make or guarantee loans to small business enterprises in connection with the acquisition, conversion and operation of plants and facilities. Furthermore, it provides that in cooperation with the surplus disposal agencies of the Government, the Corporation may arrange for sales of surplus property to small business concerns on a credit or time basis. This grant of authority is not limited or restricted in any way.

A few weeks ago the Senate, without holding any hearings, took up and, without evidence of any dissenting vote, passed a bill increasing the capital of the Smaller War Plants Corporation from $150,000,000 to $350,000,000. The bill is now pending in the House. It is obvious that, because of the broadened authority of the Smaller War Plants Corporation under the Surplus Property Bill, either this measure will be promptly enacted into law or some bill such as the Murray Bill which gives the Corporation $1,000,000,000 of capital will be passed.

The Smaller War Plants Corporation has been given broad authority in the Contract Settlement Act of 1944, as one of the Government contracting agencies, to provide interim financing in connection with the termination of war contracts. It is not only authorized but directed to make interim loans and guarantees in order to assure that small business concerns receive fair treatment. Moreover, the Director of Contract Settlement is required to collaborate with the Corporation in protecting the interests of smaller war contractors in obtaining expeditious settlement and interim financing.

As further evidence of the support for governmental assistance in the financing of small business, press reports quote Mr. Krug, Acting Chairman of the War Production Board, as saying when he appeared before the Senate War Investigating Committee, that it was even more important to small industries than to big companies to have production controls removed as quickly as possible. Then, in response to a suggestion from Senator Burton that the best thing that could be done for the small business man was to leave him alone, Mr. Krug stated that he thought that was correct except that small businesses must have Government assured loans to tide them over the reconversion period.

Let me turn now to the Wagner-Spence Bill which relates to the authority of the Federal Reserve Banks. When Mr. Baruch came down to Washington last Fall, he requested suggestions from a number of people in the Government, including myself, as to what measures might be recommended with respect to reconversion and postwar policies. After some reflection, I proposed to him the idea which was subsequently incorporated in S. 1918, the pending bill to amend section 13b of the Federal Reserve Act, under which Federal Reserve Banks would be authorized to guarantee loans made by financing institutions to business enterprises. The existing authority for the making of direct loans to business by Federal Reserve Banks would be eliminated from the law. In making this proposal I stated that it was intended merely as a supplementary source of postwar financing and that the most important means should be the use of private funds without any governmental participation. As a result of my suggestions, the Baruch-Hancock Report recommended that, as a permanent source of credit for small and medium size enterprises on a basis of broader risks than banks can be expected to assume, the Federal Reserve System's authority be expanded and liberalized. Although the report recommended a permanent authority, I, myself, have proposed that it be extended only until 1949. I have also

suggested amendments to the bill which would limit the guaranteed portion of any loan to 90 per cent of the amount of the loan and would provide an overall limitation on the amount of outstanding guarantees of four times the amount of the guarantee fund, a maximum of something over $500,000,000.

The bill introduced by Senator Wagner and Congressman Spence received the endorsement of Mr. Baruch and also of Mr. Hinckley, Director of Contract Settlement, and of the War Department. Mr. Baruch, Mr. Hinckley, and the Secretary of War have all written letters in support of the bill. In addition, the Treasury Department, in a letter from Acting Secretary Bell to Chairman Spence, has interposed no objection to the bill.

While there has been some lack of support for the bill in the Reserve System and, I understand, by one member of the Federal Advisory Council, there has been strong opposition to the bill from some of the bankers, particularly the American Bankers Association. Mr. Walter French, Deputy Manager of the American Bankers Association, has made speeches opposing the legislation. As a result of speeches by Mr. French and Robert M. Hanes, who is Chairman of the Postwar Small Business Credit Commission of the American Bankers Association, the Georgia Bankers Association went on record against the Wagner-Spence Bill, as well as against the Murray Bill and the Taft Bill. The latter two bills are as far removed, in basic principle, from the Wagner-Spence Bill as the poles. The Wagner-Spence Bill was designed to protect the private banking system from Government competition. The other bills specifically provide for direct Government competition. The attitude of the American Bankers Association appears to have been the cause of the distorted and untrue picture of the purposes and provisions of the bill which some of the newspapers have presented in their editorials.

The bill contains no authority whatsoever for Federal Reserve Banks to make direct loans to business. On the contrary, it repeals the authority in the present law under which Federal Reserve Banks may make direct loans. The bill provides only for the guaranteeing of financing institutions against loss on loans to business enterprises and for commitments by the Reserve Banks to take over such loans from financing institutions. I am opposed to Federal Reserve Banks making direct loans to business and industry, and I so stated at the hearings on this bill. Any aspect of competition between the Federal Reserve Banks and commercial banking institutions instead of being created by the bill would be eliminated. The bill would, in fact, enable the private banks, with the assistance of a guarantee, to make loans that otherwise would be made by some Government agency. Whether or not lending banks wish to avail themselves of the guarantees provided by the bill would be entirely optional with them. If they are in a position to make such loans without guarantee, so much the better. Since a bank would have to pay a guarantee fee, it naturally would not ask for a guarantee unless the loan was such that it could not afford to carry the entire risk.

Some of the opposition to the bill has even gone so far as to try to make it appear that the measure provides for socialization of credit. It is aimed at exactly the opposite. It is no more a socialization of credit than was the authority to insure bank loans under the Federal Housing

Administration. That authority encouraged and increased the business of banks in the housing field, and thus eliminated Government competition for such loans.

Before the Wagner-Spence Bill was presented to Congress, I submitted it for comment to the presidents of the Federal Reserve Banks, together with a memorandum explaining the need for such a measure. As I stated at that time, while I did not consider this plan the chief answer to the financial problems of small business, it seemed likely that due to the political appeal of other small business legislation, Congress would provide some additional governmental mechanism for small business financing during the reconversion period and thereafter. I referred to the Taft Bill, the Mead Bill, and the Murray Bill. I further stated that we cannot expect members of Congress to resist politically appealing measures of this kind unless they have an acceptable alternative at hand. While I sympathize with the desire of the American Bankers Association to have the banks stand on their own feet, it is unrealistic to expect to beat something with nothing.

While representatives of the ABA, as well as some of the bankers, have been openly or covertly opposing the Wagner-Spence Bill, which provides no competition with banks, Congress has actually passed, with no evidence of opposition from the bankers, legislation directing the Smaller War Plants Corporation to provide interim financing on terminated war contracts, the Senate has passed a bill authorizing an increase of $200,000,000 in its capital, and the Surplus Property Bill gives the Corporation broad authority to make loans directly in peacetime competition with banks.

By trying to kill off a measure that would protect and safeguard the banks while at the same time doing nothing to head off legislation, already approved, steadily expanding the powers and authority of a directly competitive Government agency, the opponents of the Wagner-Spence Bill have, in my opinion, done a disservice to the private banking system. No one, if I may say so, has more consistently opposed than I have the encroachment of Government lending agencies upon what to my mind should be the province of the banks. In the decade I have been in Washington I have by every means within my power opposed efforts of the Home Loan Bank System, of the RACC, and other governmental agencies, whether in the agricultural field or elsewhere, to invade the realm of private banking. And I have as persistently, in FHA financing, in recommending legislation on agricultural loans, in war financing operations under the so-called V, VT and now the T loans, as well as in the Wagner-Spence Bill, advocated the insurance or guarantee principle in order to facilitate the flow of private credit and thus avoid the need for public funds disbursed by competitive Federal agencies.

Not only would failure to pass the Wagner-Spence Bill help to insure passage of some measure embodying exactly the opposite principle, but it will tend to accentuate an already acute situation. Rather than have Government agencies make direct loans with money borrowed from the banks, it would be much better to have the banks make guaranteed loans, because in one case the banks are living on interest on Government bonds while in the other they are getting income from their own loans, and are merely relying

upon a guarantee. The latter is far less subject to criticism and political attack. For instance, the banks hold billions of mortgages guaranteed under FHA and no one would think of criticizing that, even though it is more profitable to the banks than investing in Government bonds. The banks may well be subject to attack, however, because of the fact that they are getting about half of their gross income today from Government securities, without which they would actually be in the red by more than $200,000,000, but with which their net profits, after taxes, are more than 9 per cent on their capital accounts.

I mention this in passing in order to round out the picture of the situation as I view it with respect to the pending measures on reconversion and postwar financing.