

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

For immediate release

June 10, 1947

STATEMENT OF CHAIRMAN ECCLES  
IN REPLY TO CRITICISM BY MR. MUIR AND MR. CRAVENS ON H.R. 3268  
BEFORE THE BANKING AND CURRENCY COMMITTEE OF THE HOUSE

During hearings before this Committee on June 4, 1947, on H.R. 3268, which would continue and improve the authority of Federal Reserve Banks to guarantee in part loans by private banks, particularly to small business, two witnesses representing committees of the American Bankers Association presented statements which are so misleading and unfair that I would appreciate having this reply placed in the record.

One witness was Mr. Earl R. Muir of Louisville, Kentucky, a member of the Small Business Credit Commission of the ABA, whose prepared statement was strikingly similar to previous attacks made on this legislation by Mr. Walter B. French, who is employed as Deputy Manager of the ABA. As this Committee is doubtless aware, though the general public is not, these attacks are not representative of a very large body of banking opinion in this country. The Board and, no doubt, members of Congress have received various communications from individual banks as well as from local banking organizations endorsing the bill, and I placed in the record the resolution in support of this measure by the Federal Reserve System's Advisory Council, which is composed of one leading banker from each of the Federal Reserve districts in the country. While Mr. Muir speaks for an ABA committee on small business, it is interesting to note that the Small Business Advisory Committee to the Secretary of Commerce, which is composed of businessmen who have given consideration to this legislation, strongly endorses it and expects shortly to issue a formal statement of approval. Likewise, I understand that the research committee of the Committee for Economic Development, in reporting on the needs of small business, among other recommendations endorses this type of credit program administered by the Federal Reserve System.

In an effort to stir up animosities, Mr. Muir echoed a wholly untrue assertion previously made by Mr. French that the bill would tend to destroy the dual banking system. This is a familiar red herring. It is repeatedly dragged out by the opponents of the Federal Reserve System, and it is utterly false. Congress gave the Reserve System authority in 1934 to make industrial loans directly or to participate in them with private banks. Under this authority some 3500 applications for commitments and advances, aggregating 566 million dollars, were approved by the Federal Reserve Banks and their branches. That did not threaten the dual banking system. During the war the Reserve Banks and branches under the so-called V-loan program made 8771 guarantees of war-production loans, aggregating nearly 10.5 billion dollars. That did not threaten the dual banking system. Nor will continuation of this same general authority as proposed in the pending bill.

Mr. Muir stated that the dual banking system had more than once been under attack by me. That is absolutely untrue. I am and have long been in favor of wider membership in the Federal Reserve System. I have urged unification in that sense and only in that sense. This does not mean doing away with State chartering or the State banking authorities, with whom the Federal Reserve System has long worked very closely. We have in the Federal Reserve System nearly 2000 State member banks having aggregate deposits of 40 billion dollars, or approximately two-thirds of the total deposits of all State commercial banks. It is preposterous to contend that continuance of this guarantee authority can or would affect in any way the established dual banking system in this country or that the Reserve Board or the Reserve Banks have any such purpose in mind in this or any other legislation.

You will recall that when the legislation was passed by Congress creating the Federal Deposit Insurance Corporation it required that all insured banks were to become members of the Federal Reserve System. Senator Glass' support of this legislation was predicated on that requirement. Opponents of the Reserve System were successful later on in getting this removed from the law as a requirement and this, in my opinion, was a backward step. The point is, however, that the charge of Reserve System hostility to the dual banking system is baseless and contradicted by the facts.

Mr. Muir likewise echoed Mr. French's fears that the Reserve Banks would approve unsound loans. As I stated recently in a letter answering Mr. French:

"Such assertions impugn the judgment and good faith not only of the Reserve Board but of the officers and staffs of the Reserve Banks and branches who have had responsibility for the 11 billions of similar credit operations in the past and who would have the responsibility for them in the future. The interest and fees collected in connection with the 566 million dollars of operations under 13b exceeded all expenses and losses entailed. Likewise, interest and fees collected in connection with nearly 10.5 billion dollars of credit operations under the V-loan program were sufficient to cover all expenses and losses and to result in a substantial profit. This is hardly a record of 'loose lending'."

Mr. Muir professes to be very solicitous of the interests of small business, but appears to be unaware of the fact that it is the smaller concerns which are greatly handicapped in obtaining needed financing because they cannot go to the capital markets, as can the big companies, and frequently the local banks do not feel that they can extend long-term credits up to 10 years, which this bill would enable them to do by authorizing the Reserve Banks, for a fee, to guarantee a percentage of the risk.

Congress has recognized the importance of the smaller business enterprises in this country and has sought to help and encourage them. This is one practical and tested way of helping. The service would be available to all banks, State or national, member or nonmember, without discrimination, just as was the case in the System's thirteen years of experience with 13b and later with V loans.

The other witness, representing the Credit Policy Commission of the ABA, who took much the same line as Mr. Muir, was Mr. Kenton R. Cravens, who reflects the opposition of some of the large banks. He conjured up another fear, namely, that in case of a severe depression, losses on guaranteed loans would have to be paid out of public funds collected in taxation of the people. Such an assertion, as applying to the proposed legislation, is false. Any losses sustained would first come out of the guarantee fees collected, and secondly out of earnings of the Reserve Banks, and finally, if the losses so far exceeded what all our experience indicates, out of the Reserve Banks' surplus.

Mr. Cravens' statement is ambiguous because he does not make clear in his criticisms whether he is speaking about the ~~impending~~ bill or about Government lending and guaranteeing operations in general. He implies, however, because he was testifying on this measure that it would be inconsistent with the American system of free enterprise. Such a charge directed at the proposed legislation is as wide of the mark as are his equally ambiguous fears about taxing the American people to take care of the guarantees. This bill would strengthen our system of private enterprise by encouraging banks to make loans particularly to the smaller businesses which without the partial guarantee would look to direct Government lending or guaranteeing based on appropriated public funds. Under this bill the Reserve Banks would have no authority to make direct loans and would in no way be placed in competition with commercial banks. In all cases loans guaranteed would originate with local privately-owned banks. Credit judgment and responsibility would remain primarily with the local bank. The bill is thus entirely consistent with our system of private enterprise.

Both Mr. Muir and Mr. Cravens point out that bank facilities today are adequate to meet the credit demands of business. I do not believe this is true so far as the long-term credit needs of small business are concerned. Experience does not support their conclusion, and this legislation would be a practical means of affording needed help when necessary without the use of appropriated money, without competition with private enterprise, and in a way that will help in preserving our economic system.