



Ernest J. Hopkins
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Bartley Griffin (Hartford Times) and Governor Draper

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The Announcer: -- The Federal Reserve System is a deep mystery to most people. We know it has to do with money and credit, but that's about all. Today Governor Ernest G. Draper, member of the Board of Governors of the Federal Reserve System at Washington, is our guest.

Carroll

Q. -- Governor Draper, our listeners would like to be told some things about the Federal Reserve System that touch their own lives, but I hardly know how to begin to question you. Can you help me?

A. -- Well, Mr. Griffin, the Federal Reserve System issues the money people spend, clears the checks they write, handles the central pool of funds that makes the banking system strong, examines some of the banks in which people keep their money, and does other vital services. We on the Board of Governors have the responsibility of watching over the nation's credit system and its relation to business, industry, agriculture, employment, and prices. Our work is directly related to the currency and checkbook that are in everyone's pocket.

Q. -- That certainly touches my life. But we can't go into this whole huge picture; we must choose some detail. You mentioned prices, Governor Draper. Everybody is concerned just now over inflation -- does the Board deal with that problem?

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A. -- It does, Mr. Griffin, though of course it is not the only agency fighting to curb inflation. To deal with the credit aspect of inflation. The cash aspect, no doubt, comes first -- as you know, there is today about \$3.73 in cash circulating in this nation to every \$1 that was in circulation in 1939. All this cash, against a short supply of goods for sale, has forced prices up. Now, if on top of all this cash you also had people running into debt to buy goods as they used to do, you would have inflation indeed.

Q. -- And the Board of Governors is doing something to cut down buying on credit?

A. -- It is indeed, Mr. Griffin, through what we know as Regulation W, issued by the Board prior to Pearl Harbor and modified from time to time since then. This Regulation partly limits the buying of goods on term payments or instalments, and also to some extent the use of charge-accounts at stores. It makes it just a little harder for people to go into debt to buy goods, thereby having an important effect in relieving the upward pressure upon prices. It also speeds up the payment of debt while times are good, and therefore leaves people in a better and stronger financial position. This Regulation, we are convinced, has saved untold millions for the public.

Q. -- Is this a wartime control?

A. -- It was, and it is now a readjustment control. To watch the situation very carefully and change the Regulation according to conditions. Quite recently, on September 3 in fact, the Board shortened the time-period on certain consumer credits from 18 to 15

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months, and also increased the size of a regulated instalment-credit from \$1,500 to \$2,000, in order to reduce inflation. The business men who sell goods on credit or finance instalment accounts have cooperated splendidly. So far, the possible results of runaway credit-buying upon price inflation have been kept well in hand.

Q. -- That is certainly important to all of us. I shall remember Regulation W next time I want to run up a bill when I might much better pay cash. But what about the other side of inflation? What about the use of credit in producing more goods -- does the Board of Governors also deal with that?

A. -- The banking system as a whole is the source of production credits, Mr. Griffin; bank loans to productive enterprises have increased of late, and no restrictions of production are ascribed to the credit system. But our problems change; during the war, the expansion of war production was the first order of business. In 1942 the Board under emergency authority granted by the President issued its Regulation V, and the result was one of the most amazing achievements in the history of American credit. You will remember that war contractors large and small, old and new, experienced and inexperienced, had to have funds if they were to produce the materials of war. Some of those risks were too great for the banks; a bank loan has to be adequately secured, and many of the new war contractors lacked adequate security. Under Regulation V, the Federal Reserve System with the war procurement agencies behind it supplied that necessary security.

Q. -- How was this done?

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A. -- By a credit guarantee -- a form of insurance, by which, when a bank made a war loan, it was protected in whole or part against loss. A V-loan was simply a bank loan, some part of which was covered by this insurance. So remarkable were the results, Mr. Griffin, that in less than 4 years' time the banks of the nation loans 10 billion 500 million dollars to war producers -- loans in many cases that they otherwise could not have made -- under protection of Regulation V. The losses proved to be extremely small -- only about six cents on \$100 of authorized credit. Since the banks paid a small fee or premium for the guarantee, the V-loan system broke slightly better than even in the end.

Q. -- Ten billion dollars in bank credit! That is quite an achievement. But what about this guarantee plan? It helped to win the war -- can't some similar plan help to provide a flow of funds for production purposes in time of peace?

A. -- It can, Mr. Griffin, and the Board of Governors has asked Congress for the legal power to use this same plan, to aid small business. I am greatly interested in small business, as you may know -- I started my career as a small business man, and the problems of the little independent enterpriser are very close to my heart. Now, one of those problems is a credit problem. Small business often has difficulty in getting enough credit at the bank, and the banker in turn often has difficulty in making loans to small business. It would be for the good of the nation if the relationship between banking and small business were strengthened, and this same guarantee plan that worked so well during the war would be, if we could apply it, the best way to strengthen that relationship.

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Q. -- Let me see if I understand that. Suppose I am a small business man. I go to my banker for a loan. My business is in pretty good shape, but he turns me down, limits the amount, or shortens the time of payment. Why is that?

A. -- Usually because you haven't enough security to put up behind the loan. The banker must have adequate security and you can't blame him for that. Small enterprises do a large volume of business, but as a rule they haven't much in the way of property or other assets with which to secure their bank borrowings. To provide the small business with some additional security, which the bank would accept, is the key to this difficulty.

Q. -- Then you suggest that when the small business man needs funds, and hasn't quite enough security but is otherwise in good shape, the Federal Reserve should, so to speak, increase the security behind his note at the bank?

A. -- That is what it virtually amounts to, Mr. Griffin. That was what was done for the war producers during the war -- the government through the Federal Reserve System agreed to take over part of the loan if the bank asked it to, thus shouldering part of the risk. This assurance that part of a doubtful loan can be sold by the bank at any time makes the credit sufficiently sound, from the bank's point of view, to be granted. The Board of Governors believes that a plan that worked so well during the war ought not to be abandoned, but should be applied to the credit problems of small business during this period of readjustment. But we lack adequate legal authority to do it. The Board has asked Congress to grant the

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needed authority, and the percentage guarantee plan for small business is embodied in the Wagner-Spence bill, which is now in committee of the House and Senate. This is a well-tested plan; the method has been proved in practice by ten billion dollars' worth of experience. I firmly believe that small business men should get behind the Wagner-Spence bill, or a bill of similar character, and that it should be passed. To put it another way, the V-loan system that succeeded so amazingly during the war should be made a regular feature of the banking system and used to solve the credit problem of small business.

Q. -- Governor Draper, Connecticut is very largely a small business State and I am sure many of our listeners have been greatly interested in what you have had to say. Thank you for your clear explanation of these difficult credit problems, and when we hear of Regulation W, Regulation V and ^{the} small-business partial guarantee plan in the future, we shall know better what they mean. Thank you.

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