

# LOOSENING OF CREDIT SOUGHT

## Administration Wants New Banking Control System

(Special to The Press & Maconian) WASHINGTON, August 29.—One of the things which the president is expected to call on congress to straighten out next winter is the matter of control of banking and credits.

Ultimately, many folk here believe, the government will become the sole primary source of credit. All the indications point that way. At present, however, there are three separate institutions dealing with the banks and each exercising some sort of control over credit. And those three are pulling in different directions.

There is the Reconstruction Finance corporation, the treasury and the Federal Reserve Bank system. The first two are governmental departments, the last ostensibly a private institution, but under close government supervision and control.

The RFC not only has lent a few billion dollars to banks, but it is now, under a law passed at the last session of Congress, making loans to private industries. All of those loans are amply secured. Indeed, the RFC—which is, incidentally, one great Governmental agency which was established under the preceding administration—is the source to which almost all sound business enterprises of any size are turning for working capital. There is no doubt in the mind of anybody that these loans will ultimately all be paid back, with interest.

### RFC and the Banks

The RFC also has invested a great deal of Federal money in the preferred stock of many banks all over the country. The theory of this is not only that weak banks needed this strengthening but that, being a large stockholder, the Government would thus be entitled to a seat on the board of directors, and so keep watch that no depositors' money was lent for speculative purposes. The Administration believes, and rightly, that a large part of our financial difficulties have arisen from too easy credit for purely speculative purposes. But it was definitely the intent that this additional bank capital, provided by the RFC, should be used to enable banks to make legitimate loans to business and industry; in other words, to loosen up bank credit.

That would have been all right if it had not been for the directly opposite view on credits taken by the comptroller of the currency's office. That branch of the treasury is charged with the periodical examination of all national banks. In instance after instance, when banks which have sold preferred stock to the RFC have used the proceeds in loans of unquestionable soundness, bank examiners have called their directors together and "bawled them out" for making such loans.

### At Cross-Purposes

Instructions from Washington to bank examiners are to compel every bank to call in every dollar of outstanding loans not secured by good collateral or made against financial statements which indicate many times the value of the loan. And

in the case of debtors of long standing who have been unable to do much more than pay their interest on bank loans, the comptroller's office is inclined to insist upon banks suing the delinquent borrowers and obtaining judgments so that if, at any time within twenty years, the poor fellow does get hold of anything, the bank can take it over.

In other words, while the Administration and the RFC are aiming for a reasonable inflation of credit, or at least toward loosening up, the comptroller's office is still working on a policy of deflation which, if pursued to its logical end, would mean pretty nearly general bankruptcy.

The answer to this apparent paradox is that the comptroller's office is still under the control of the same group which have been running it for years, through many administrations.

Out of this situation has arisen the idea, which is beginning to gain adherents here, that the comptroller's office should be entirely detached from the treasury and its functions delegated to some other body, perhaps the Federal Reserve

board. To do that would necessitate new banking legislation, enlarging the Federal Reserve's powers; but that is not impossible.

### A National Central Bank

What some of the clearest financial thinkers believe should be done, though that does not mean that it will be done, is to consolidate the RFC and the Federal Reserve, put all banks under their jurisdiction and let the government do all of its banking functions through what would be, in effect a great national central bank. That is the way in which nearly every other nation in the world operates. Government itself does not engage in banking, banking does not attempt to exercise governmental functions. Treasury and central bank cooperate, the bank's function being to keep its finger on the pulse of business and industry and to float governmental bond issues or provide financing for the government in other ways.

Something of the sort will certainly be discussed next winter when Congress again meets. How far it will get will depend upon many things, including the administration's strength in the next con-

gress. That is still in the future, but with little doubt here of a safe working majority on the Democratic side.

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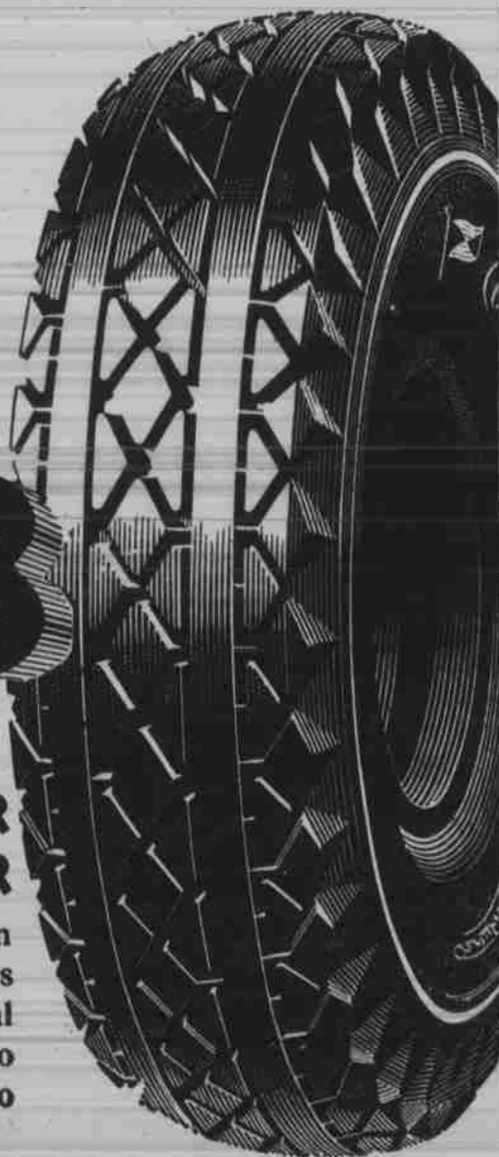
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