

# WASHINGTON VIEWPOINT

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## The Treasury's Inning

Hearings on the International Monetary Fund and World Bank before the House Banking and Currency Committee had been devoted largely to the presentation of the Treasury's case as this issue of *The Burroughs Clearing House* went to press. Bankers scheduled to testify had not yet been called.

Secretary of the Treasury Morgenthau opened the hearings with the warning that amendments would endanger the world security plan and the request that the legislation be passed before the San Francisco conference, April 25. "We cannot say that we will join the other nations in an organization to maintain peace," declared Mr. Morgenthau, "but will not help to remove one of the most dangerous causes of war—economic dislocations." He maintained that another monetary conference might be necessary "in the case Congress makes substantial changes," and added that "if Congress approves, I have reason to believe the other 44 nations will."

When asked about the position of the banking industry on Bretton Woods, Secretary Morgenthau told the House committee the Federal Reserve Board had voted unanimous endorsement. As for the banks, he said that some associations were for and some were in opposition through their committees. Presumably he was referring to the action of the Independent Bankers Association in disagreeing with the American Bankers Association on the fund.

Treasury spokesmen following Mr. Morgenthau were critical of the A.B.A. plan to drop the \$8,800,000,000 fund and limit the banking and stabilization program to \$9,100,000,000 under the bank. Dr. Harry D. White, Assistant Secretary of the Treasury, and E. M. Bernstein, Assistant Director of Monetary Research, argued that the proposal would be altogether inadequate for stabilization and reconstruction loan needs.

In a week of questioning, by Representative Crawford of Michigan and others, Dr. White answered many questions on the fund and on the bank. On the matter of gold, in relation to the fund, he stated that fund members would agree to maintain the value of their currencies in terms of dollars or gold, within 1 per cent of par. He stated that currency values may vary up to 10 per cent without fund permis-



FRED M. VINSON

*Now holds the purse strings*

sion, and that further changes would require approval by fund managers. Changes would have nothing to do with the fund's assets, he said. If currency values should change, nations would have to deposit additional amounts of currency or gold in the fund.

The bank would concern itself with long-term loans to rebuild industries, ports, power plants, water systems, and development loans to create these facilities. These would not usually be direct loans. The plan is to have the bank and receiving governments guarantee loans to be floated by private banks. Guarantees would be made only when private loans could not be obtained at "reasonable interest."

The State Department supported the Treasury appeal for Congressional approval of the Bretton Woods agreements. Assistant Secretary of State Dean Acheson stated that the importance of the achievement overshadows the matter of detail. When asked why the bank could not handle the tasks assigned to the fund, he stated that the problems were too different. Operators of the fund, he stated, must watch international transactions "every day and minute" while the bank was to concern itself only with long-term lending operations.

## New Loan Administrator

Fred M. Vinson, new Federal Loan Administrator, was confirmed by the Senate without a protest, an action that was indicative of his standing. He has the respect of Congress and is well known and well liked at the Capitol.

As Director of Economic Stabilization for the past two years he has displayed a broad understanding of economic problems. He is known as a student of affairs and as a skilled politician. He has shown the ability to withstand pressure.

Mr. Vinson may be expected to administer the vast affairs of the Reconstruction Finance Corporation and the other government lending agencies with thoughtful consideration to the questions involved. He is considered more liberal than Jesse Jones and more amenable to administration ideas but a man of decision in his own right.

Meanwhile, the Reconstruction Finance Corporation, chief lending agency under Administrator Vinson's general supervision, has been in the news. On March 1 the RFC introduced a new liberalized "guarantee" policy in connection with small business loans. It announced a willingness to enter into agreements with regional bank credit pools or with individual banks automatically to take a 75 per cent deferred participation in loans up to \$250,000 to help small business.

This is the first time that the RFC has been willing to give assurance of participation in advance, before taking a look at proposed credit extensions. A master participation agreement, much on the order of individual deferred participation loan agreements now in force, would be signed by the bank or credit group and the RFC to cover the loans.

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## Seventh Drive Innovations

The \$14 billion Seventh War Loan Drive has been deliberately fashioned to curb inflation, to limit the rise in bank earnings, and to point toward a further reduction of interest rates on Federal securities.

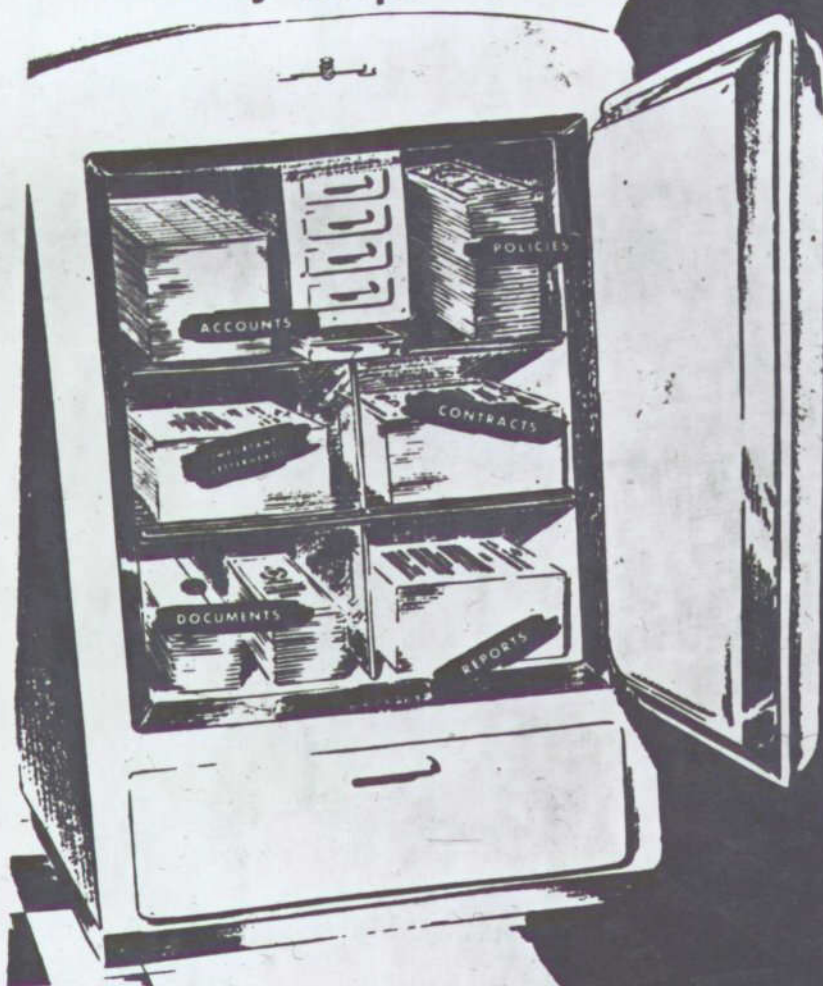
With the exception of a shift from the 2 per cent to a 1½ per cent coupon bond, and inclusion of a 2¼ per cent bond, the Seventh Drive securities



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are similar to those offered in the Sixth Drive. They include the Series E, F, and G Savings Bonds and Series C Savings Notes, the  $2\frac{1}{2}$  per cent coupon bonds, and the  $\frac{7}{8}$  per cent certificates of indebtedness. Goals have been fixed, however, to emphasize sale of Series E Bonds to individuals and to encourage purchases by other non-bank investors. Of the \$7 billion quota fixed for individual subscribers, \$4 billion has been assigned to Series E Bonds.

In setting a \$7 billion goal for individual sales, the Treasury topped by \$1.1 billion the total of such sales in the Sixth Drive. The Series E quota of \$4 billion for the current drive compares with \$2.5 billion in the last campaign. However, Treasury officials anticipate little trouble in attaining the goal for individual sales because of the long sales period.

The Seventh Drive does not get formally under way until May 14. From that date until June 30, the official promotional effort to sell securities will be made. However, sales of savings bonds and notes from April 9 to July 7 will be credited to the Seventh Drive, and this extends the actual individual sales campaign to the unprecedented length of nearly three months.

During the final phase of the drive, June 18 through June 30, subscriptions will be received from all other non-bank investors for the  $2\frac{1}{2}$  and  $2\frac{1}{4}$  per cent marketable bonds and the certificates of indebtedness.

During this same period, commercial banks will be afforded an opportunity to subscribe for Series F and G Savings Bonds, the  $1\frac{1}{2}$  per cent bonds, and the  $\frac{7}{8}$  per cent certificates in limited amounts based on time deposits. The formula is the same that applied to bank purchases in the previous drive, but for the first time Series F and G Bonds are made available to the banks. Such subscriptions may be in aggregate amounts not exceeding \$500,000 or 10 per cent of a bank's time deposits, of which not more than \$100,000 may be Series F and G Bonds. Securities so acquired by banks will not be included in the \$14 billion drive goal nor will they be counted in any quota.

The nature of the Seventh Drive reflects a determination to curb indirect bank participation. Secretary of Treasury Morgenthau is requesting the co-operation of all banks in declining to make speculative loans for the purchase of government securities, and in declining to accept subscriptions from customers which appear to be entered for speculative purposes.

Elimination of the popular 2 per cent coupon bond and substitution of the  $1\frac{1}{2}$  per cent security is expected to go far toward discouraging bank participation in the Seventh Drive.