

Excerpt from Minutes of May 24, 1957:

Suggested bill for the establishment of "national investment companies". At this meeting Chairman Martin reported on the discussion with Senator Fulbright to which he referred at the meeting yesterday. He stated that the Senator appeared deeply interested in the problem of small business financing, was opposed to certain alternative bills which had been introduced, intended to hold hearings on the suggested bill to provide for national investment companies, and would like Vice Chairman Balderston to testify in the absence of Chairman Martin when hearings were held in June. The Chairman also said that Senator Fulbright represented himself as supporting the Board's current credit policy, recognized that the proposed legislation, if enacted at present, might run counter to that policy, but spoke of the legislation as a long-range project with enactment at a later session of the Congress.

Chairman Martin went on to say that he expressed the personal view to the Senator that there was a problem involved. However, he made it quite clear that in his opinion the Board would not be prepared to endorse the proposed bill. He said that he also informed Senator Fulbright of the consideration being given by the Board to a comprehensive study of the availability of credit to small business, that he made it clear that such a study would be expensive, and that he obtained the impression that the Senator might support such a study.

Chairman Martin then suggested that the Board give Vice Chairman Balderston as much latitude as possible in testifying so that he might handle the matter and develop the problem without indicating that the Board had taken a firm position on the suggested bill.

In a discussion based on the Chairman's comments, Governor Mills indicated that he was not satisfied that the expense of a comprehensive study of the financing problems of small business was justified under present conditions. However, if such a study were requested by the Congress, the Board of course would have to undertake it.

On this point Chairman Martin commented that he thought it likely that Senator Fulbright would take steps leading to a request for such a study by the Board. In his personal view, Chairman Martin said, the problem was an important one, and for several reasons he would prefer a study by the Federal Reserve System rather than some other agency. Returning to the requested testimony, he again urged that Vice Chairman Balderston be given maximum latitude, pointing out that the proposed bill was a "trial balloon" which might well be revised considerably in the course of hearings and Congressional debate. In this connection, he commented that, in response to a question by Senator Fulbright, he had agreed to make the Board's legal staff available for advice on technical drafting problems, this being the kind of service that would normally be provided upon request in connection with the drafting of legislation.

Governor Robertson then suggested that Governor Balderston would have to testify on behalf of the Board rather than as an individual, but that he did not think it would be difficult for the Board to reach agreement on a general position which would form a basis for the testimony. First, it seemed clear that the Board saw a need for a basic study by some instrumentality of the Government. Second, he felt that in previous testimony on this subject/sufficient emphasis had been given to the point that high-powered Federal Reserve dollars should not be used for the purpose of extending credit to business. This could lead to the positive statement in the course of testimony that, while a need might exist for assistance to small business, the proposed investment companies should be established by some agency using regular taxpayers' dollars.

The question then remaining would be the selection of the organization best suited for such an undertaking. In the case of the Federal Reserve, there would be an inconsistency between the credit control function and an operation involving the extension of credit.

Chairman Martin stated that such an approach would be agreeable to him and apparently would be acceptable to Senator Fulbright also, the Senator's concern being particularly that the Board not express the opinion that there was no problem involved.

Governor Vardaman indicated that the approach suggested by Governor Robertson also would be agreeable to him.

After Mr. Cherry had stated that Governor Balderston would be asked to testify on Tuesday, June 11, or some day later that week, it was agreed that the staff would begin preparing for the Board's consideration a draft of statement which might be presented by Governor Balderston.