CONFIDENTIAL

March 9, 1950

To: Board of Governors

From: Mr. Young

Subject: Proposed White House Small Business Bill

There is attached a list of some economic and financial questions raised by the proposed White House bill cited as the "Small Business Act of 1950". The questions are directed solely at the new financing arrangements specified in the Bill.

Attachment

SOME ECONOMIC AND FINANCIAL QUESTIONS RAISED BY THE PROPOSED WHITE HOUSE SMALL BUSINESS FINANCING BILL

A. Some Basic Questions

1. The principal question raised by the Bill is whether the establishment of Federal Investment Companies under the auspices of the Department of Commerce would be the most effective way of "facilitating maximum participation of private financial institutions and investors" in the plan? The authors of the proposed Bill appear to agree with others who are studying the problem that any new financing of small business enterprises should utilize to the maximum extent possible existing private financing arrangements and facilities.

2. How would a Federal Investment Company get started? What would be the motiviating force behind it? Who would provide the initial capital? Could sufficient private capital be counted on at the outset? Is the Federal Reserve System to supply most of the capital at the outset?

3. Is Federal insurance of the obligations of the Investment Companies as outlined in this Bill consistent with the basic aim of the legislation to make this new form of financing primarily a function of the private financial structure and its institutions? Should the resources of the Government be available as insurance for the equity financing of business? In place of an insurance scheme, would it not be sufficient for the new Companies to set up adequate reserves for losses out of income as is done by existing private financial institutions?

B. Some Specific Questions

1. Should banks and other financial institutions participating in the financing activities of the new Investment Companies be required to purchase stock in these companies? Would not this seriously jeopardize the cooperation of existing private financial institutions with the plan?

2. Is 3 per cent of its capital and surplus too large an investment in a Federal Investment Company for a commercial bank to make?

3. Would it not be desirable to restrict the direct lending activities of the new Investment Companies to occasions when loans are not available from existing private financial institutions on reasonable terms?

4. Would ownership of shares in the Investment Companies appeal to private investors if the Department of Commerce were to have the permanent power to elect 3 directors?

5. Should not the proposed new loan insurance plan be set up as a function of the new Federal Investment Companies to give them another source of income?