

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 6, 1948

To Mr. Eccles

Subject: _____

From Mr. Carpenter

James

Attached is a copy of a letter dated May 4, 1948, and its enclosure, from Mr. Sproul with respect to a questionnaire which he has received as a member of the Advisory Committee of a subcommittee of the Hoover Committee which is studying the organization of the executive branch of the Government. The letter will be placed on the docket for consideration at the meeting of the Board on Tuesday, May 11, and the staff is studying the material that might be assembled in response to Mr. Sproul's request.



Attachment

C O P Y

FEDERAL RESERVE BANK
OF NEW YORK

New York 45, N.Y.

May 4, 1948.

Dear Mr. McCabe:

Enclosed is a copy of a questionnaire which I have been given as a member of the Advisory Committee of a subcommittee of the Hoover Committee which is studying the organization of the executive branch of the government. I am sure that some of the people at the Board have done a considerable amount of thinking and work on the matters covered by the questionnaire and I should appreciate having any material which they may be able to send to me which will aid me in my work as a member of the Advisory Committee. They need not confine themselves to the points covered in the questionnaire, of course, as I would be glad to have their thoughts on other aspects of the problem.

This may be an opportunity to do some good for the Federal Reserve System as well as for the executive branch of the government.

Yours faithfully,

(Signed) Allan Sproul

Allan Sproul,
President.

Enc.

Honorable Thomas B. McCabe, Chairman,
Board of Governors of the Federal Reserve System,
Washington, D. C.

CERTAIN QUESTIONS RELATING TO GOVERNMENT LENDING AGENCIESA. TESTS AND CRITERIA OF NECESSITY FOR GOVERNMENT LENDING

- (1) The Senate Committee on Banking and Currency has recommended that RFC be guided by the following standards of lending:

"First, such activities should not be carried on in competition with private sources of credit.

"Second, in deciding whether to grant a loan, the primary consideration should be the interest of the general public rather than the interest of the individual borrower.

"Third, under normal conditions the activities should be conducted so as to make them self-sustaining insofar as it is possible."

Are these the appropriate standards for the business lending field?

- (2) What are the primary standards in fields of Government lending other than RFC?
- (3) Are the various classes of loans of the several agencies justified from the viewpoint of a compelling need based upon public necessity of national scope?

B. GENERAL POLICY

- (1) Is it desirable that all Federal Government lending activities be correlated and conducted in conformity with a uniform policy related to the Government's public debt management policy, its policies regarding regulation of credit in the banking field and other credit policies?
- (2) Is it desirable to assign lending or loan guaranty responsibilities to the Federal Reserve System or does such authority conflict with the extensive responsibility for regulation of the nation's banking structure?
- (3) Is it desirable to commingle lending responsibilities with the responsibilities for the construction, ownership and operation of physical properties (except in the case of foreclosures)?

- (4) Is it desirable to commingle lending responsibilities with the responsibilities for making subsidy payments or grants in aid?
- (5) Is it desirable for the Government to undertake lending activity or loan guaranty activity with respect to other than a natural class of borrowers?
(For example, commercial enterprises, home owners and farmers would be considered natural classes of borrowers, whereas Veterans and Indians would be an entirely different type of classification.)
- (6) Where it is possible, is it preferable for the Government to sponsor a self-sustaining program of loan insurance as a means of establishing and assuring credit in a given field in lieu of the undertaking of direct lending activities?
- (7) Should there be a policy requiring the publication of names of borrowers from Government lending agencies?
- (8) Is it desirable for a lending agency to own U. S. Government securities so long as the Government supplies all or a substantial amount of its capital?
- (9) Is it desirable for the lending agency to operate on a revolving fund basis which permits it to re-employ the funds collected from borrowers?
(At least one of the present agencies is required to deposit all of its collections into the Treasury.)
- (10) Should the lending agencies, so long as they have the use of Government capital, be required to bear the full cost incurred by the Government in obtaining such capital?

Similarly, should the lending agencies be required to bear their full share of all other costs applicable to their activities which are borne by other Government agencies?

C. FORM OF ORGANIZATION

(1) It is consistent with our general approach of Government by checks and balances, to have a commercial type of economic function, such as lending, controlled by the regular executive branch of the Government?

Does such a combination of economic and political power represent a danger to the basic liberties of the people?

(2) Which is the preferable form of organization for lending activities of the Federal Government:

(a) An integrated part of the regular Government departments

If they should take this form of organization, is it desirable to centralize them in the Treasury Department or should they be distributed in various departments, such as Agriculture, Commerce, etc.?

(b) Government Corporation

If organized as Government corporations should the lending activities be administered through four agencies, one devoting its entire attention to each of the four major purposes--namely, agricultural, commercial, home ownership and foreign trade?

Is it desirable to introduce part-time business-type boards of directors or should the boards of directors be full-time, as exemplified by present organization of RFC? How should the board of directors be chosen and would there be any advantages of having appointments made direct by Congress as well as by the President comparable to the manner of appointment of the present Commission on Organization of the Executive Branch of the Government?

Should the Board of Directors have full responsibility for the selection of top management?

D. POINTS RELATING TO EFFICIENCY

- (1) Is it desirable that commercial activities, if conducted by Government corporations, should be freed of civil service restrictions and regulations?
- (2) Is it desirable to have the Government lending agencies' transactions subject to a detailed audit control of the General Accounting Office or is a commercial type examination, such as that performed by the Corporation Audits Division, a sounder approach?