

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 22, 1945

To Mr. Thurston

Subject: Hearings before the Small Business  
Committee of the House on finan-  
cial problems of small business

From Mr. Cherry

Mr. Emil Schram, President of the New York Stock Exchange, was the only witness. He read from a prepared statement but no copies were available. He began by referring to the qualifications for listing stocks on the New York Stock Exchange and stated that because the stock of many small business enterprises was not listed it should not be taken to mean that he had a feeling of discrimination against small business. He said, however, that it would be a good thing if more local concerns were listed on the regional exchanges, stating that probably one of the deterrents was the registration with the SEC. He felt, however, that the new \$300,000 exemption may help.

He said that it was not feasible to make loans to small business from Washington or from the financial centers but that financial aid should come from local banks and other private sources. He endorsed the Louisville Industrial Foundation Plan and also the Terre Haute Plan in which a fund was raised locally for loans to small business. He pointed out that when the Government supplies equity capital it is not in a position to furnish management, whereas if the borrower's "neighbors" pass upon the financial needs of the small business they can assist in recommending good management. In this connection, he pointed out that moral responsibility and the character of the borrower are often more important than the collateral.

He then made two recommendations--first, relief of small business from taxation; and, second, the encouragement of local lending corporations with possibly the aid of the RFC to insure up to 75 per cent of a loan. He said he was opposed to Government in business but that the Government should cooperate. Reference was made to the FHA program of insurance but he stated that such insurance is not to be compared with loans to business because the basic factors are different. It is not difficult to appraise the value of a house but it is another matter to appraise the business ability and other intangibles of a small business concern.

He pointed out that local capital is embarrassing to the Stock Exchange market. It comes in on tips, etc.; it abuses the market and is not used wisely. He feels that it should stay out of the market and should be encouraged to be invested locally.

Congressman Robinson was critical of the banks for not making loans but relying upon earnings from service charges and investment in Government bonds. He also criticized examiners for being too strict with small bankers. He said that it was wrong to require too high a

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liquidity in the assets of a bank. Mr. Schram replied that he thought the banks have learned something and will make loans to business in the postwar period.

He felt that the excess profits tax exemption should be raised from \$10,000 to \$50,000, stating that he felt strongly that the present tax program retarded private financing. He did not agree, however, that a general tax change should be considered at this time. He also concurred in a suggestion made by Mr. Eastwood, the chief investigator of the Committee, that a tax credit for a person who invests in small business would not be class legislation and would be a good idea, at least for a few years.

The Committee members present were Messrs. Patman, Robinson, Keogh and Hall.

JMK