

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 31, 1947.

To Chairman Eccles

Subject: _____

From Mr. Draper

PERSONAL

A situation has arisen with reference to the Commerce Department and S.408 (the amendment to Section 13) concerning which I am anxious to inform you.

Some days ago Ralph Young saw me with reference to the provisions in a coming C.E.D. report referring to the financing of small business. As I understand it, Ralph Young tried to get the C.E.D. Committee to indorse our Section 13 amendment but in spite of all his efforts the C.E.D. directors prefer not to do so. However, they did indorse a plan of the Investment Bankers whereby regional banks would be set up in various Federal Reserve Districts with Federal Reserve money behind them for the purpose of providing equity capital (probably through Investment Bankers) to small business concerns. It seems that the newly appointed Under Secretary of Commerce, Mr. Foster, likes this plan and is prepared if possible to secure the backing of the Commerce Department for it.

This situation is nothing new to us. About a year or so ago when I testified before the Colmer Committee in favor of the Wagner-Spence Bill, Mr. Garland, the President of the Investment Bankers Association, also testified in favor of their proposal which was essentially the same as is now being agitated. Now, what we are up against is this--according to Ralph Young, Mr. Foster, Under Secretary of Commerce, is anxious to secure our assistance in backing the Investment Banker approach both before the C.E.D. Committee and also, I think, in Congress. In return for our support, I understand that Mr. Foster thinks he can get the Commerce Department to back our proposal on Section 13 as a companion piece of legislation to the Investment Banker approach.

Ralph Young is anxious to have us discuss this suggestion with you. I told him that I would be glad to do so if he would include Woodlief Thomas. I hear this morning that they are both available for a talk on the subject if you are interested in it.

For many reasons it is a little difficult for me to get up much enthusiasm for the Investment Banker approach at this stage of the game not only on the merits of the proposal but because I have noticed in the past that whenever we make a new suggestion on Section 13, the

Investment Bankers come forward with one of their own proposals to be made effective by use of Federal Reserve funds. This happened twice before--once when Clifford Folger was President of their Association; and again when Charles Garland was President.

I may be prejudiced but it is at least a curious coincidence that we never hear any talk about these proposals from the Investment Bankers except when our legislation is before Congress. However, Ralph Young seems so enthusiastic about the idea that I am wondering if you would care to talk this matter over at some time convenient to you with Woodlief Thomas, Ralph Young and myself.

~~E. G. D.~~

Discussed with Mr. Draper over the telephone on February 14, 1947.
M.S.E.