

RFC ACT AMENDMENTS OF 1951

FRIDAY, APRIL 27, 1951

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, at 10 a. m., in the caucus room, Senate Office Building, Senator Burnet R. Maybank (chairman) presiding.

Present: Senators Maybank, Fulbright, Robertson, Benton, Capehart, Ives, and Schoeppel.

Also present: Senators Byrd and Kem.

The CHAIRMAN. The committee will please come to order.

Senator ROBERTSON. I wish to ask unanimous consent just before the testimony of Governor Eccles, who I understand will testify on behalf of S. 1376, that we insert the provisions of S. 1376 and an analysis of those provisions.

The CHAIRMAN. Without objection that will be done.

(The bill and analysis referred to will be found on p. 46.)

The CHAIRMAN. I would like to have made a part of the record all the bills that are before this committee, S. 514, S. 515, S. 1116, S. 1123, and Senate Joint Resolution 44, that concern the changes or abolishment of the RFC, and also the staff memorandums as prepared by the staff at the request of the committee.

I should also like to make a part of the record S. 1329, submitted by Senator O'Mahoney, who also has requested that he testify on that bill because he believes that there are certain sections which would be applicable to any changes in the RFC.

Senator ROBERTSON. Mr. Chairman, has the latter bill been referred to us?

The CHAIRMAN. Yes, since last year.

(The bills referred to follow:)

[S. 514, 82d Cong., 1st sess.]

A BILL To amend the Reconstruction Finance Corporation Act, as amended, to provide for the elimination of the Board of Directors, and to vest the management of the Corporation in a governor

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 2 of the Reconstruction Finance Corporation Act, as amended, is amended to read as follows:

"Sec. 2. The management of the Corporation shall be vested in a governor appointed by the President of the United States by and with the advice and consent of the Senate. The governor shall be appointed for a term of three years, but he may continue in office until his successor is appointed and qualified. The governor shall be eligible for reappointment. Whenever a vacancy shall occur in the office of governor, other than by expiration of term, the person appointed to fill such vacancy shall hold office for the unexpired portion of the term. The governor shall not engage in any other business, vocation, or employment than

that of serving as governor and shall receive a salary at the rate of \$17,500 per annum. The governor is authorized to appoint two deputy governors to assist in the execution of the functions vested in the Corporation. Deputy governors shall be paid at the rate of \$15,000 per annum."

(b) The word "governor" shall be substituted for the word "director", "directors", and "Board of Directors" wherever such word or words appear in the Reconstruction Finance Corporation Act, as amended.

SEC. 2. This Act shall take effect sixty days after the date of its enactment, and the offices, powers, and duties of the Board of Directors of the Reconstruction Finance Corporation shall thereupon terminate.

[S. 515, 82d Cong., 1st sess.]

A BILL To amend the Reconstruction Finance Corporation Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Reconstruction Finance Corporation Act, as amended, is amended to read as follows:

"SEC. 1. (a) There is hereby created a body corporate with the name 'Reconstruction Finance Corporation' (herein called the Corporation). It shall be the duty of said Corporation to aid in financing industry, agriculture, commerce, to encourage small business, to help in maintaining the economic stability of the country, to assist in promoting maximum employment and production and, when specifically directed, to perform certain duties and functions in connection with the national defense and foreign policy programs of the United States. The principal office of the Corporation shall be in the District of Columbia, but there may be established agencies or branch offices in any city or cities of the United States under rules and regulations prescribed by the governor. This Act may be cited as the 'Reconstruction Finance Corporation Act'.

"(b) Within six months after the close of each fiscal year, the Corporation shall make a report to the Congress of the United States which shall contain the financial statements for the fiscal year, including a balance sheet, a statement of income and expenses for all operations, a statement of income and expenses for major classes of loans, and an analysis of accumulated net income. Such statements shall be prepared from the financial records of the Corporation which shall be maintained in accordance with generally accepted accounting principles applicable to commercial corporate transactions, including the maintenance of adequate cost accounting records so that the development of data necessary to report the results of its lending activities by major classes of loans can be accomplished. The report shall contain schedules showing, as of the close of the Corporation's fiscal year, direct loans totaling \$100,000 or more to any one borrower; loans totaling \$100,000 or more, to any one borrower in which the Corporation has a participation or an agreement to participate; and the investments in the securities and obligations of any one borrower which total \$100,000 or more.

"SEC. 2. The management of the Corporation shall be vested in a governor appointed by the President of the United States by and with the advice and consent of the Senate. The governor shall be appointed for a term of three years, but he may continue in office until his successor is appointed and qualified. The governor shall be eligible for reappointment. Whenever a vacancy shall occur in the office of governor, other than by expiration of term, the person appointed to fill such vacancy shall hold office for the unexpired portion of the term. The governor shall not engage in any other business, vocation, or employment than that of serving as governor and shall receive a salary at the rate of \$17,500 per annum. The governor is authorized to appoint two deputy governors to assist in the execution of the functions vested in the Corporation. Deputy governors shall be paid at the rate of \$15,000 per annum.

"SEC. 3. (a) The Corporation shall have succession through June 30, 1956, unless it is sooner dissolved by an Act of Congress. It shall have power to adopt, alter, and use a corporate seal; to make contracts; to lease or purchase such real estate as may be necessary for the transaction of its business; to sue and be sued, to complain and to defend, in any court of competent jurisdiction, State or Federal; to select, employ, and fix the compensation of such officers, employees, attorneys, and agents as shall be necessary for the transaction of the business of the Corporation, in accordance with the applicable provisions of the Classification Act of 1949 and any other laws applicable to the Corporation; and to prescribe, amend, and repeal, by its governor, bylaws, rules, and regulations governing the manner in

which its general business may be conducted. Except as may be otherwise provided in this Act or in the Government Corporation Control Act, the governor of the Corporation shall determine the necessity for and the character and amount of its obligations and expenditures under this Act and the manner in which they shall be incurred, allowed, paid, and accounted for, without regard to the provisions of any other laws governing the expenditure of public funds, and such determination shall be final and conclusive upon all other officers of the Government. The Corporation shall be entitled to and granted the same immunities and exemptions from the payment of costs, charges, and fees as are granted to the United States pursuant to the provisions of law codified in section 2412 of title 28 of the United States Code. The Corporation shall also be entitled to the use of the United States mails in the same manner as the executive departments of the Government. Debts due the Corporation, whether heretofore or hereafter arising, shall not be entitled to the priority available to the United States pursuant to section 3466 of the Revised Statutes (U. S. C., title 31, sec. 191) except that the Corporation shall be entitled to such priority with respect to debts arising from any transaction pursuant to any of the following Acts or provisions in effect at any time: Sections 5d (1) and 5d (2) of the Reconstruction Finance Corporation Act added by section 5 of the Act entitled 'An Act to authorize the purchase by the Reconstruction Finance Corporation of stock of the Federal home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes', approved June 25, 1940 (54 Stat. 573); sections 4 (f) and 9 of the Act entitled 'An Act to mobilize the productive facilities of small business in the interests of successful prosecution of the war, and for other purposes', approved June 11, 1942 (56 Stat. 354, 356); section 2 (e) of the Emergency Price Control Act of 1942 (56 Stat. 26); the Surplus Property Act of 1944 (58 Stat. 765 and the following); sections 11 and 12 of the Veterans' Emergency Housing Act of 1946 (60 Stat. 214, 215); and section 403 of the Sixth Supplemental National Defense Appropriation Act (56 Stat. 245).

"(b) Notwithstanding any other provision of law, the right to recover compensation granted by the Act approved September 7, 1916, as amended (5 U. S. C. sec. 751), shall be in lieu of, and shall be construed to abrogate, any and all other rights and remedies which any person, except for this provision, might, on account of injury or death of an employee, assert against the Corporation or any of its subsidiaries.

"Sec. 4. (a) Where it has been determined by the Corporation that financial assistance is not otherwise available on reasonable terms and that a substantial public interest would be served, the Corporation within the limitations hereinafter provided is authorized, either directly or in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise—

"(1) to purchase the obligations of and to make loans to any business enterprise organized or operating under the laws of any State or the United States;

"(2) to make loans to any financial institution organized under the laws of any State or of the United States and to subscribe for or make loans upon nonassessable preferred stock in any insurance company organized under the laws of any State or of the United States. In any case in which, under the laws of the State in which it is located, any such insurance company is not permitted to issue nonassessable preferred stock, or if such laws permit such issue of preferred stock only by unanimous consent of stockholders, the Corporation is authorized to purchase the legally issued capital notes or debentures of such insurance company;

"(3) in order to aid in financing projects authorized under Federal, State, or municipal law, to purchase the securities and obligations of, or make loans to (A) States, municipalities, and political subdivisions of States, (B) public agencies and instrumentalities of one or more States, municipalities, and political subdivisions of States, and (C) public corporations, boards, and commissions: *Provided*, That no such purchase or loan shall be made for payment of ordinary governmental or nonproject operating expenses as distinguished from purchases and loans to aid in financing specific public projects; and

"(4) to make such loans as it may determine to be necessary or appropriate because of floods or other catastrophes: *Provided*, That the provisions of section 4 (a) as to availability of credit shall not apply to such loans.

"(b) The powers granted in section 4 (a) of this Act shall be subject to the following restrictions and limitations.

"(1) All securities and obligations purchased and all loans made under paragraphs (1), (2), and (3), of subsection (a) of this section shall be of such sound value or so secured as reasonably to assure retirement or repayment.

"(2) No loan, including renewals or extensions thereof, may be made under sections 4 (a) (1), (2), and (4) for a period or periods exceeding ten years and no securities or obligations maturing more than ten years from date of purchase by the Corporation may be purchased thereunder: *Provided*, That the foregoing restriction on maturities shall not apply to securities or obligations received by the Corporation as a claimant in bankruptcy or equitable reorganization or as a creditor in proceedings under section 20B of the Interstate Commerce Act, as amended: *Provided further*, That any loan made or securities and obligations purchased prior to July 1, 1947, may in aid of orderly liquidation thereof or the interest of national security, be renewed or the maturity extended for such period not in excess of ten years and upon such terms as the Corporation may determine: *And provided further*, That any loan made under section 4 (a) (1) for the purpose of constructing industrial facilities may have a maturity of ten years plus such additional period as is estimated may be required to complete such construction. The Corporation may, in carrying out the provisions of subsection 4 (a) (3), purchase securities and obligations, or make loans, including renewals or extensions thereof, with maturity dates not in excess of forty years, as the Corporation may determine.

"(3) In agreements to participate in loans, wherein the Corporation's disbursements are deferred, such participations by the Corporation shall be limited to 70 per centum of the balance of the loan outstanding at the time of the disbursement, in those cases where the total amount borrowed is \$100,000 or less, and shall be limited to 60 per centum of the balance outstanding at the time of disbursement, in those cases where the total amount borrowed is over \$100,000.

"(4) The total amount of investments, loans, purchases, and commitments, made pursuant to authority granted by subsections (a) (4), (a) (3), and (a) (2) of section 4, which the Corporation may have outstanding at any one time, shall not exceed (1) under subsection (a) (4) \$40,000,000, (2) for construction purposes under subsection (a) (3) \$200,000,000, and (3) for financial assistance to insurance companies under subsection (a) (2) \$15,000,000.

"(5) No loan or other financial assistance shall be extended under authority contained in 4 (a) (1) unless there is reasonable cause to believe that the total amount of funds supplied including interest thereon can be repaid within ten years from date of initial disbursement, either from earnings of the borrower or through means, other than liquidation of the borrower, contemplated at the time the application was approved by the Corporation.

"(6) All applications for loans or other financial assistance totaling \$100,000 or more to any borrower must be approved by the governor. In any instance where such an application is approved over the adverse recommendation of the Review Board provided for in paragraph (8) of this subsection, or disapproved over the recommendation of said Board, a memorandum shall be placed in the loan file setting forth the governor's reasons for such approval or disapproval.

"(7) Each loan made hereafter by the Corporation to any borrower pursuant to paragraphs (1) or (2) of subsection (a) of this section shall be conditioned upon the execution of an agreement between the Corporation and such borrower by which such borrower shall undertake that it will not, within two years after the date of the making of such loan, employ, tender any office or employment to, or refrain for professional services any person who on the date such loan was made or within one year prior thereto shall have served as a director or governor of the Corporation, or as an officer, attorney, agent, or employee of the Corporation occupying a position or engaging in activities which the governor shall have determined to involve the exercise of discretion with respect to the making of loans to borrowers pursuant to paragraphs (1) or (2) of subsection (a) of this section unless—

"(A) the governor shall have determined that such person, on the date such loan was made and within one year prior thereto, was employed by the Corporation only in a branch or field office of the Corporation which did not, and under ordinary procedures of the Corporation would not, perform any function in connection with the negotiation, modification, supervision, or collection of such loan; or

"(B) such person (I) shall be employed at the request of the governor upon his determination that such employment is advisable to safeguard the interests of the Corporation, (II) will receive no compensation from the Corporation for such employment other than his regular salary, and (III) will receive no compensation from such borrower for such employment: *Provided*, That compensation so paid by the Corporation shall be deemed to be nonadministrative expense of the Corporation.

As used in this paragraph, the term 'loan' shall include any extension of financial assistance, by loan or otherwise, pursuant to this Act.

"(8) All applications for loans or other financial assistance referred to in paragraph (6) of this subsection shall be reviewed by a Board of Review consisting of five persons selected by the governor from among the senior examiners of the Corporation. It shall be the duty of the said Board to submit to the governor a written decision or finding in each case. Each member of the Board shall serve without compensation other than the compensation received as senior examiner and shall not be removed from the said Board without cause.

"(9) No application for a loan or other financial assistance shall be approved by the Corporation unless the basis for the determination of substantial public interest as required by section 4 (a), has been reduced to writing and made a permanent part of the files of the Corporation. The governor shall make the determination in all cases where the applications total \$100,000 or more to any borrower.

"(c) No fee or commission shall be paid by any applicant for financial assistance under the provisions of this Act in connection with any such application, and any agreement to pay or payment of any such fee or commission shall be unlawful.

"(d) No governor, officer, attorney, agent, or employee of the Corporation in any manner, directly or indirectly, shall participate in the deliberation upon or the determination of any question affecting his personal interests, or the interests of any corporation, partnership, or association in which he is directly or indirectly interested.

"(e) The powers granted to the Corporation by this section 4 shall terminate at the close of business on June 30, 1954, but the termination of such powers shall not be construed (1) to prohibit disbursement of funds on purchases of securities and obligations, on loans, or on commitments or agreements to make such purchases or loans, made under this Act prior to the close of business on such date, or (2) to affect the validity or performance of any other agreement made or entered into pursuant to law.

"(f) The Corporation shall maintain as a permanent part of its records a docket which during the regular business hours of the Corporation shall be kept available for public inspection. The following information shall be posted in the said docket without delay upon receipt of an application for a loan:

"(1) The name of the applicant and, in the case of corporate applicants, the names of the officers and directors thereof.

"(2) The amount and duration of the loan for which application is made.

"(3) The purpose for which the proceeds of the loan are to be used.

"(4) A description of the security offered.

"(5) The names of all persons who shall represent the applicant or who shall intercede for the applicant or who shall attempt to influence the Reconstruction Finance Corporation in any manner either for or against the applicant in the exercise of its judgment in connection with said loan.

Duplicate copies of this docket shall be maintained both in the Agency office in which the loan application is filed and in the Washington office of the Corporation.

"(g) In order to enable the Corporation to carry out the provisions of this Act, the Treasury Department, the Comptroller of the Currency, the Federal Reserve Board, the Federal Reserve banks, the Securities and Exchange Commission, the Interstate Commerce Commission, and the Civil Aeronautics Board are hereby directed, under such conditions as they may prescribe, to make available to the Corporation at its request such reports, records, or other information as they may have, relating to the condition of existing borrowers and applicants for loans under this Act, or relating to obligors whose obligations are offered to or held by the Corporation as security for loans under this Act. Every applicant for a loan under this Act shall as a condition precedent thereto, consent to such examination as the Corporation may require for the purposes of this Act and that reports of examinations by constituted authorities may be furnished by such authorities to the Corporation upon request therefor.

"(h) Section 410 of the Civil Aeronautics Act of 1938, as amended, is hereby repealed.

"(i) As used in this Act, the term 'State' includes the District of Columbia, Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

"SEC. 5. It shall be the general policy of the Corporation to establish interest rates on loans that, in the judgment of the governor, will cover the costs as determined under section 7 (c), administrative expenses and other expenses, and a risk factor which, over all will provide for losses that may materialize on loans.

"SEC. 6. The Federal Reserve banks are authorized and directed to act as custodians and fiscal agents for the Corporation in the general performance of its powers conferred by this Act and the Corporation may reimburse such Federal Reserve banks for such services in such manner as may be agreed upon.

"SEC. 7. (a) The Corporation is authorized to obtain money from the Treasury of the United States, for use in the performance of the functions, powers, and duties granted to or imposed upon it by this Act or any other provision of law, not to exceed a total of \$1,300,000,000 outstanding at any one time. For this purpose appropriations not to exceed \$1,300,000,000 are hereby authorized. Amounts appropriated hereunder and all income hereafter earned from the Corporation's operations shall become and will be administered as a revolving fund to effectuate the provisions of this Act. Advances shall be made to the Corporation from the revolving fund upon the written request of the Corporation. As the Corporation repays the amounts obtained from the Treasury, the repayments shall be made to the revolving fund.

"(b) Within thirty days after the appropriations authorized in section 7 (a) have been made available, the Corporation shall retire its capital stock, shall redeem its outstanding notes held by the Treasury, and shall pay into miscellaneous receipts of the Treasury the estimated amount of its accumulated earnings as of the date of settlement. Necessary adjustment arising from earnings redetermination shall be made within a reasonable time thereafter. The Corporation's power to issue its notes, debentures, bonds, and other obligations to the United States Treasury, except as provided under section 7 (a), is hereby rescinded.

"(c) Annual payments shall be made by the Corporation to the Treasury of the United States as miscellaneous receipts by reason of costs incurred by the Government, either directly or indirectly, through the employment of Federal funds by the Corporation in carrying out the provisions of this Act. These payments shall be computed by applying to the average monthly balance of funds invested in the Corporation, a percentage determined annually in advance by the Secretary of the Treasury. Such percentage shall not be less than the current average rate which the Treasury pays on its marketable obligations.

"SEC. 8. The Corporation shall after June 30, 1950, contribute to the civil-service retirement and disability fund, on the basis of annual billings as determined by the Civil Service Commission, for the Government's share of the cost of the civil-service-retirement system applicable to the Corporation's employees and their beneficiaries. The Corporation shall also after June 30, 1950, contribute to the Employees' Compensation Fund, on the basis of annual billings as determined by the Federal Security Administrator for the benefit payments made from such fund on account of the Corporation's employees. The annual billings shall also include a statement of the fair portion of the cost of the administration of the respective funds, which shall be paid by the Corporation into the Treasury as miscellaneous receipts.

"SEC. 9. The Corporation, including its franchise, capital, reserves and surplus, and its income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to special assessments for local improvements and shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed. The exemptions provided for in the preceding sentence with respect to taxation (which shall, for all purposes, be deemed to include sales, use, storage, and purchase taxes) shall be construed to be applicable not only with respect to the Corporation but also with respect to any other public corporation which is now or which may be hereafter wholly financed and wholly managed by the Corporation. Such exemptions shall also be construed to be applicable to loans made, and personal property owned by the Corporation, or such other corporations, but such exemptions shall not be construed to be applicable in any State to any buildings which are considered by the laws of such State to be personal property for taxation purposes. Notwithstanding any other provision of law or any privilege or consent

to tax expressly or impliedly granted thereby, the shares of preferred stock of national banking associations, and the shares of preferred stock, capital notes, and debentures of State banks and trust companies, acquired prior to July 1, 1947, by the Corporation, and the dividends or interest derived therefrom by the Corporation, shall not, so long as the Corporation shall continue to own the same, be subject to any taxation by the United States, by any Territory, dependency, or possession thereof, or the District of Columbia, or by any State, county, municipality, or local taxing authority, whether now, heretofore, or hereafter imposed, levied, or assessed, and whether for a past, present, or future taxing period.

"Sec. 10. (a) The Corporation is authorized and directed to transfer within thirty days after the effective date of this Act, to the Export-Import Bank of Washington, and the Export-Import Bank of Washington is authorized and directed to receive all notes, mortgages, debentures, loan agreements, or other forms of indebtedness, and all loan files pertaining to the loan to the Republic of the Philippines and the loan to the Steep Rock Iron Mines, Ltd. The Export-Import Bank shall reimburse the Corporation for the unpaid balances of the loans, plus accrued interest, as of the date of transfer.

"(b) The Corporation is authorized and directed to transfer within thirty days after the effective date of this Act, to the Secretary of the Treasury, and the Secretary of the Treasury is authorized and directed to receive, all notes, loan agreements, or other forms of indebtedness, and all loan files, pertaining to the loan to the United Kingdom of Great Britain and Northern Ireland. The Secretary of the Treasury shall cancel notes of the Corporation in an amount equal to the unpaid balance of the loan, plus accrued interest, as of the date of transfer.

"(c) The Corporation is authorized and directed to transfer within thirty days after the effective date of this Act, to the Housing and Home Finance Administrator, and the Housing and Home Finance Administrator is authorized and directed to receive, all mortgages, so classified on the Corporation's balance sheet, which originated under authority of the Reconstruction Finance Corporation Mortgage Company. The Secretary of the Treasury is authorized and directed to cancel notes of the Corporation in an amount equal to the unpaid balances of the mortgages, plus accrued interest, as of the date of transfer. The Housing and Home Finance Administrator shall sell or otherwise liquidate the mortgages so transferred at no less than the unpaid balance at date of transaction, plus accrued interest. All income and proceeds from liquidation, less reasonable costs of administration, shall be paid into the Treasury as miscellaneous receipts.

"Sec. 11. Upon the termination of the powers granted to the Corporation by section 4 of this Act, the governor shall, except as otherwise herein specifically authorized, proceed to liquidate its assets and wind up its affairs. He may with the approval of the Secretary of the Treasury deposit with the Treasurer of the United States as a special fund any money belonging to the Corporation or from time to time received by it in the course of liquidation, for the payment of its outstanding obligations, which fund may be drawn upon or paid out for no other purpose. Any balance remaining after the liquidation of all the Corporation's assets and after provision has been made for payment of all legal obligations shall be paid into the Treasury of the United States as miscellaneous receipts. Thereupon the Corporation shall be dissolved.

"Sec. 12. If at the expiration of the succession of the Corporation, its governor shall not have completed the liquidation of its assets and the winding up of its affairs, the duty of completing such liquidation and winding up of its affairs shall be transferred to the Secretary of the Treasury, who for such purpose shall succeed to all the powers and duties of the governor under this Act. In such event he may assign to any officer or officers of the United States in the Treasury Department the exercise and performance, under his general supervision and direction, of any such powers and duties. When the Secretary of the Treasury shall find that such liquidation will no longer be advantageous to the United States and that all of the Corporation's legal obligations have been provided for, he shall pay into the Treasury as miscellaneous receipts the unused balance of the moneys belonging to the Corporation, and make a final report to the Congress. Thereupon the Corporation shall be deemed to be dissolved.

"Sec. 13. (a) Whoever makes any statement knowing it to be false, or whoever willfully overvalues any security for the purpose of obtaining for himself or for any applicant any loan, or extension thereof by removal, deferment of action or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of the Corporation, or for the purpose of obtaining money, property, or anything of value, under this Act, shall be

punished by a fine of not more than \$5,000 or by imprisonment for not more than two years, or both.

"(b) Whoever (1) falsely makes, forges, or counterfeits any note, debenture, bond, or other obligation, or coupon, in imitation of or purporting to be a note, debenture, bond, or other obligation, or coupon, issued by the Corporation; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish any false, forged, or counterfeited note, debenture, bond, or other obligation, or coupon, purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited; or (3) falsely alters any note, debenture, bond or other obligation, or coupon, issued or purporting to have been issued by the Corporation; or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true any falsely altered or spurious note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, or any person who willfully violates any other provision of this Act, shall be punished by a fine of not more than \$10,000, by imprisonment for not more than five years, or both.

"(c) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it; or (2) with intent to defraud the Corporation or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof; or (3) with intent to defraud participates, shares, receives directly or indirectly any money, profit, property, or benefit through any transaction, loan, commission, contract, or any other act of the Corporation; or (4) gives any unauthorized information concerning any future action or plan of the Corporation which might affect the value of securities, or having such knowledge, invests or speculates, directly or indirectly, in the securities or property of any company, bank, or corporation receiving loans or other assistance from the Corporation, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

"(d) No individual, association, partnership, or corporation shall use the words 'Reconstruction Finance Corporation' or a combination of these three words, as the name or a part thereof under which he or it shall do business. Every individual, partnership, association, or corporation violating this prohibition shall be guilty of a misdemeanor and shall be punished by a fine of not exceeding \$1,000 or imprisonment not exceeding one year, or both.

"SEC. 14. The Corporation is authorized to exercise the functions, powers, duties, and authority transferred to the Corporation by Public Law 109, Seventy-ninth Congress, approved June 30, 1945, but only with respect to programs, projects, or commitments outstanding on June 30, 1947.

"SEC. 15. If any provision of this Act or the application of such provision to any person, or circumstances shall be held invalid, the validity of the remainder of this Act, and the applicability of such provision to other persons or circumstances, shall not be affected thereby."

SEC. 2. This Act shall take effect sixty days after the date of its enactment, and the offices, powers, and duties of the Board of Directors of the Reconstruction Finance Corporation shall thereupon terminate.

[S. 1116, 82d Cong., 1st sess.]

A BILL To dissolve the Reconstruction Finance Corporation, and to provide for the transfer of certain functions heretofore vested in the Reconstruction Finance Corporation with respect to the administration of the rubber, tin, and abaca programs.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding any other provision of law with respect to the date upon which the powers granted to the Reconstruction Finance Corporation by section 4 of the Reconstruction Finance Corporation Act shall be terminated, or the date upon which the succession of the Reconstruction Finance Corporation shall expire, the Reconstruction Finance Cor-

poration is hereby dissolved. The duty of liquidating the assets and winding up the affairs of such Corporation shall devolve upon the Secretary of the Treasury who shall proceed with such liquidation of assets and winding up of affairs as expeditiously as possible in accordance with the provisions of section 10 of the Reconstruction Finance Corporation Act; except that the unused balance of the moneys belonging to the Corporation, required by such section to be paid into the Treasury, shall be used exclusively for the reduction of the public debt.

SEC. 2. The functions of the Reconstruction Finance Corporation with respect to the administration and supervision of the rubber program (Rubber Act of 1948, as amended), the tin program (Public Law 125, Eightieth Congress, as amended), and the abaca program (Public Law 683, Eighty-first Congress), together with all properties, assets, funds, contracts, loans, liabilities, commitments, authorizations, allocations, personnel, and records necessary in connection with the exercise of such functions, are hereby transferred to the Office of Defense Mobilization. Except as specifically provided herein, this section shall not be construed to modify or repeal any of the Acts under which such programs are carried out.

[S. 1123, 82d Cong., 1st sess.]

A BILL To amend the Defense Production Act of 1950 and the Reconstruction Finance Corporation Act, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 302 of the Defense Production Act of 1950 (Public Law 774, Eighty-first Congress) is amended to read as follows:

"Sec. 302. To expedite production and deliveries or services to aid in carrying out Government contracts for the procurement of materials or the performance of services for the national defense; the President may make provision for participations in, and guarantees of, loans to private business enterprises (including research corporations not organized for profit) for the expansion of capacity, the development of technological processes, or the production of essential materials, including the exploration, development, and mining of strategic and critical metals and minerals. Such participations in, and guarantees of, loans may be made without regard to the limitations of existing law and on such terms and conditions as the President deems necessary except that financial assistance may be extended only to the extent that it is not otherwise available on reasonable terms."

SEC. 2. So much of subsection (a) of section 303 of the Defense Production Act of 1950 (Public Law 774, Eighty-first Congress) as precedes the proviso is amended to read as follows: "To assist in carrying out the objectives of this Act, the President may authorize the Secretary of the Interior, the Secretary of Agriculture, or the Administrator of General Services to make provision (1) for purchases of or commitments to purchase metals, minerals, and other raw materials, including liquid fuels, for Government use or for resale; and (2) for the encouragement of exploration, development, and mining of critical and strategic minerals and metals:"

SEC. 3. The Defense Production Act of 1950 (Public Law 774, Eighty-first Congress) is amended by adding a new section immediately after section 304, as follows:

"Sec. 305. The administration and supervision of the rubber program (Rubber Act of 1948, as amended), the tin program (Public Law 125, Eightieth Congress, as amended), and the abacá program (Public Law 683, Eighty-first Congress), all now under the administration of the Reconstruction Finance Corporation, together with all functions, property, assets, funds, contracts, loan, liabilities, commitments, authorizations, allocations, personnel, and records necessary in connection with such programs are hereby transferred to the Secretary of Commerce. Except as specifically provided herein, this section shall not be construed to modify or repeal any of the Acts under which said programs are carried out."

SEC. 4. (a) The first sentence of section 3 (a) of the Reconstruction Finance Corporation Act, as amended, is amended by striking out "June 30, 1956" and inserting in lieu thereof "June 30, 1951".

(b) Subsection (f) of section 4 of the Reconstruction Finance Corporation Act, as amended, is amended by striking out "June 30, 1954" and inserting in lieu thereof "June 30, 1951".

[S. 1329, 82d Cong., 1st sess.]

A BILL To establish corporations to assist financial institutions in making credit available to commercial and industrial enterprises and to provide capital for such enterprises

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 13b of the Federal Reserve Act is amended to read as follows:

"SEC. 13b. 1. PURPOSE.—The general purpose of this section, as amended, in the light of which its provisions shall be construed and applied, is to provide a means for supplementing the existing financial activities of banks and other financial institutions by the establishment of one or more regional investing corporations, privately owned and managed, their formation to be facilitated by authorizing the purchase of their capital stock by the Federal Reserve banks with a view to the ultimate disposal of such capital stock by the Federal Reserve banks to member banks of the Federal Reserve System and to other private investors. Such corporations shall be authorized to invest in and make loans to both small and independent business enterprises organized upon sound business principles which supply an economically useful product or service, where the investment in or loans to such enterprises are in the interest of the national defense during periods of national emergency, or are desirable to promote the growth and expansion of such enterprises.

"2. NATIONAL INVESTMENT ADVISORY COUNCIL.—(a) There is hereby established a National Investment Advisory Council, hereinafter called the 'Council', which shall consist of the Secretary of the Treasury, the Secretary of Commerce, who shall be Chairman of the Council, and the Chairman of the Board of Governors of the Federal Reserve System. The Council shall advise and consult with the Board of Governors of the Federal Reserve System and make recommendations to that Board from time to time with respect to the operations of the corporations organized under this Act, the lending and investment policies of such corporations, and the administration of the provisions of this section.

"3. ELIGIBLE ENTERPRISES.—The Secretary of Commerce shall promulgate standards to determine the eligibility of small or independent business enterprises for the purposes of this section. In promulgating such standards, which may differ according to the types of financing or other relevant factors, there shall be considered the relative size and position of businesses in relation to the trade or industry in which they are engaged, the size and nature of the area of their operations, the size and independence of the group supplying capital or holding ownership or control of the business, and the independence of their management; and no enterprise shall be considered to be a small or an independent business enterprise which is affiliated through stock ownership or otherwise with any other enterprise which is determined to be dominant in the trade or industry or field of business in which it is engaged, unless such other enterprise otherwise qualifies as a small or independent business enterprise under this section.

"4. ORGANIZATION OF CORPORATIONS.—(a) Corporations, not exceeding in number the total number of Federal Reserve banks and branches thereof, organized for the purpose of operating under this section, may be organized by any number of persons not less than five, who shall subscribe to the articles of incorporation; except that any such corporation in whose stock one or more Federal Reserve banks invest shall be formed by a Federal Reserve bank, which alone shall subscribe to the articles of incorporation. The articles of incorporation of such corporation shall specify in general terms the objects for which the corporation is formed and may contain any other provisions not inconsistent with this section that the corporation may see fit to adopt for the regulation of its business and the conduct of its affairs, including provision for cumulative voting in the election of directors. Such articles shall be subject to the approval of the Board of Governors of the Federal Reserve System, and with such approval may be amended from time to time. Articles of incorporation and amendments thereto shall be forwarded to the Board of Governors for consideration and approval or disapproval. Such articles shall specifically state—

"first, the name assumed by such corporation;

"second, the area or areas where its operations are to be carried on, which may be anywhere within the United States, its Territories and island possessions, but as long as any of its stock is owned by any Federal Reserve bank, the Board may restrict the geographical area of its operations;

"third, the place where its principal office is to be located, which shall be within the Federal Reserve district in which it is established; and

"fourth, the amount of its capital stock and the number and classes of shares into which the same shall be divided, with or without par value, and the respective participations of such shares in the profits of the corporation.

"(b) In determining whether to approve the establishment of such a corporation and its proposed articles of incorporation, the Board of Governors shall give due regard, among other things, to the need for the financing of small and independent business enterprises in the place or places where the proposed corporation is to commence operations, the general character of the proposed management of such corporation, the number of such corporations previously organized in the United States, and the volume of their operations. After consideration of all relevant factors, the Board of Governors may approve the articles of incorporation and issue a permit to begin business. Upon issuance of such a permit, the corporation shall thereafter become and be a body corporate and, as such, and in the name designated therein, shall have power to adopt and use a corporate seal; to have succession for a period of thirty years, unless extended as provided in this section, or unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchise becomes forfeited by some violation of law; to make contracts; to sue and be sued; complain, and defend in any court of law or equity; by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them as it deems advisable, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to adopt bylaws regulating the manner in which its stock shall be transferred, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed; to establish branch offices or agencies subject to the approval of the Board; to acquire, hold, operate, and dispose of any property (real, personal, or mixed) whenever necessary or appropriate to the carrying out of its lawful functions; to act as depository for fiscal agent of the United States when so designated by the Secretary of the Treasury; to operate in such Federal Reserve district or districts or Territories or possessions of the United States as may be specified in its articles of incorporation; and shall have the other powers set forth in this section and such incidental powers as may be reasonably necessary to carry on the business for which the corporation is established.

"(c) The board of directors of each corporation organized under this section shall consist of nine members, all of whom shall be elected annually by the holders of the shares of stock of the corporation authorized and issued under the provisions of this section. Subject to the provisions of this section the directors of any corporation organized under this section shall have wide discretion in directing the affairs of such corporation to carry out the purposes of this section.

"5. CAPITAL STOCK PROVISIONS.—Each corporation organized under this section shall have a paid-in capital and surplus equal to at least \$5,000,000 before it shall commence business. Each Federal Reserve bank which organizes a corporation under this section shall invest in shares of stock of such corporation in an amount equal to at least \$5,000,000, or an amount which, when added to the amounts, if any, of shares subscribed by other Federal Reserve banks, member banks, nonmember banks, financial institutions, corporations, partnerships, or other persons, shall equal the sum of \$5,000,000; and each Federal Reserve bank is hereby authorized, notwithstanding any other provisions of law, to invest in the shares of stock of one or more corporations organized under this section: *Provided*, That in no event shall any Federal Reserve bank invest in shares of corporations organized under this Act if as a result thereof it will hold an amount of such shares aggregating more than 2 per centum of the aggregate amount of the combined capital and surplus of all its member banks, or \$5,000,000, whichever is greater. The shares of stock in any corporations organized under this Act shall be eligible for purchase by member banks of the Federal Reserve System, and each such member bank is hereby authorized, notwithstanding any other provision of Federal law, to acquire and hold an amount of such shares equal to not more than 2 per centum of the capital and surplus of such member bank. Subject to the provisions of this section, any nonmember bank, financial institution, corporation, partnership, or other person may acquire shares of stock in any corporations organized under this Act. Upon the demand of any member bank, a Federal Reserve bank which holds shares of stock in a corporation organized under this Act shall, with the approval of the Board of Governors, sell to such member bank all or a portion of such shares up to the amount which such member bank is authorized to acquire and hold under the provisions of this paragraph; and

a Federal Reserve bank holding such shares of stock may, with the approval of the Board of Governors, sell such shares to any nonmember bank, financial institution, corporation, partnership, or to any other person. The price at which such shares may be sold by a Federal Reserve bank under this paragraph shall be subject to the approval of the Board of Governors. The aggregate amount of shares in any such corporation or corporations which may be owned or controlled by any member bank, by any nonmember bank, financial institution, corporation, partnership, or by any other person, or by any group or class of persons, may be limited by the Board in accordance with its general policies; and no one stockholder, other than a Federal Reserve bank, shall at any time, without the approval of the Board in accordance with such policies, own or control more than 10 per centum of the total outstanding shares of any such corporation.

"6. BORROWING POWER.—Each corporation shall have authority to borrow money and to issue debentures, bonds, promissory notes, or other obligations under such general conditions and subject to such limitations and regulations as the Board of Governors may prescribe, but in no event shall any such corporation issue obligations which would cause the amount outstanding at any one time to exceed the amount of its paid-in capital stock and surplus. Notwithstanding any limitation contained in section 5136 of the Revised Statutes, each member bank is authorized to purchase and hold obligations of corporations organized under this section in an aggregate amount not exceeding 10 per centum of such bank's capital and surplus.

"7. DIRECT LOANS.—Each corporation shall have authority to make or acquire loans with or without security to both small and independent business enterprises which are eligible therefor, or to purchase obligations of such enterprises. Such loans, purchases, or other acquisitions may be made either directly or in cooperation with banks or other lending institutions, through agreements to participate or by the purchase of participations, commitments to purchase, or otherwise, as the corporation may determine.

"8. EQUITY FINANCING.—Each corporation shall have authority to purchase and to resell to the issuer or to others, the income debentures, common or preferred stocks, or other capital shares of small and independent business enterprises eligible under this section.

"9. AGGREGATE LIMITATION.—Without the approval of the Board of Governors, the aggregate amount of obligations or securities acquired or for which commitments may be issued by the corporation under the provisions of this section which exceed the sum of \$300,000 for any single enterprise shall not exceed 33½ per centum of the combined capital and surplus and maximum indebtedness of the corporation authorized by this section.

"10. EXTENSIONS.—(a) The loans of any national banking association which are insured under this section or which are purchased by the corporation or for which a commitment to purchase is issued hereunder shall not be subject to the limitations on real-estate loans prescribed in section 24 of the Federal Reserve Act as amended.

"(b) Paragraph (2) of subsection (a) of section 3 of the Securities Act of 1933, as amended, is hereby amended by adding at the end of such paragraph the following: 'or any security issued by or representing an interest in or a direct obligation of a corporation organized under section 13b of the Federal Reserve Act, as amended;'. Paragraph (3) of subsection (c) of section 3 of the Investment Company Act of 1940, as amended, is hereby amended by changing the period at the end of such paragraph to a semicolon and adding the following: 'or any corporation organized under section 13b of the Federal Reserve Act, as amended'. Paragraph (4) of subsection (a) of section 304 of the Trust Indenture Act of 1939 is hereby amended by changing the semicolon at the end of such paragraph to a comma and adding the following: 'or any security issued by or representing an interest in or a direct obligation of a corporation organized under section 13b of the Federal Reserve Act, as amended;'. "

"(c) The corporation, its franchise, loans, and other assets, its capital stock, its surplus, its reserves, and its income, shall be exempt for a period of fifteen years from the date of its charter from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or other taxing authority; except that any real property of the corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

"11. MISCELLANEOUS.—(a) Wherever practicable the financing operations of the corporation shall be undertaken in cooperation with member banks of the

Federal Reserve System or with other banks of financial institutions, and any initial investigation and servicing required for loans or purchases of securities by the corporation under the provisions of this section may be handled through such banks or other financial institutions on a fee basis.

"(b) The corporation may make use, wherever practicable, of the advisory services of the Federal Reserve System and of the Department of Commerce which are available for and useful to industrial and commercial businesses, and may provide consulting any advising services on a fee basis and have on its staff persons competent to provide such services. Subject to the supervision and direction of the Board of Governors of the Federal Reserve System any Federal Reserve bank is authorized to act as a depository or fiscal agent for any corporation organized under this section. Such corporations may invest funds not reasonably needed for their current operations in direct obligations of, or obligations guaranteed as to principal and interest by, the United States.

"(c) The Board of Governors is authorized to prescribe regulations, not inconsistent with general policies established by the Council, governing the operations of national investment companies and to carry out the provisions of this section in accordance with its purposes.

"(d) Each corporation shall be subject to examinations made by direction of the Board of Governors of the Federal Reserve System or by a Federal Reserve bank designated by the Board by examiners selected or approved by the Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Board and to be paid by the corporation examined; and every such corporation shall make such reports to the Board of Governors at such times and in such form as the Board may require.

"(e) Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any non-compliance with, or violation of this section shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or Territory in which the principal office of such corporation is located, which suit shall be brought by the United States at the instance of the Board of Governors of the Federal Reserve System or the Attorney General.

"(f) Any corporation organized under this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Board of Governors for its approval to extend the period of its corporate existence for a term of not more than thirty years, and upon certified approval of the Board of Governors such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited as herein provided.

"(g) Whenever in the judgment of the Board of Governors of the Federal Reserve System any person has engaged or is about to engage in any acts or practices which constitute or will constitute a violation of any provision of this section or of any regulation thereunder, the Board may make application to the proper district court of the United States, or the United States courts of any Territory or other place subject to the jurisdiction of the United States, for an order enjoining such acts or practices, or for an order enforcing compliance with such provision, and such courts shall have jurisdiction of such actions and upon a showing by the Board that such person has engaged or is about to engage in any such acts or practices a permanent or temporary injunction, restraining order, or other order shall be granted without bond.

"(h) Section 1014 of title 18 of the United States Code is amended by inserting the phrase 'or a corporation organized under section 13b of the Federal Reserve Act' after the words 'Federal Reserve bank'.

"(i) Notwithstanding this amendment to this section 13b, the Federal Reserve banks, for a period of one year following the effective date of this amendment, shall continue to possess and have the right to exercise all authority conferred upon them by the provisions of this section as it existed prior to the effective date of this amendment. Nothing herein shall affect the power of any Federal Reserve bank to carry out, or protect its interest under, any agreement or transaction heretofore or hereafter made or entered into in carrying on operations pursuant to such authority. All or part of the assets held by any Federal Reserve bank which

have been or may hereafter be acquired by it pursuant to such authority may be purchased by any corporation organized under this section with the consent of such Reserve bank.

"(j) Within sixty days after the effective date of this amendment, each Federal Reserve bank shall pay to the United States the aggregate amount which the Secretary of the Treasury has heretofore paid to such bank under the provisions of this section as heretofore existing; and such payment shall constitute a full discharge of any obligation or liability of the Federal Reserve bank to the United States or to the Secretary of the Treasury arising out of subsection (e) of this section as heretofore existing or any agreement thereunder. The amounts repaid to the United States pursuant to this paragraph and any remaining balance of the funds set aside in the Treasury for payments under this section as heretofore existing shall be covered into miscellaneous receipts.

"(k) Neither the United States nor any Federal Reserve bank shall have any liability with respect to any obligations entered into, or stocks issued, or commitments made, by any corporation organized under this section."

[S. J. Res. 44, 82d Cong., 1st sess.]

JOINT RESOLUTION Providing for the termination of the powers and succession of the Reconstruction Finance Corporation

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That it is the sense of the Congress that the economic conditions which existed when the Reconstruction Finance Corporation was established and which such Corporation was designed to alleviate no longer exist. Such Corporation, having served the purposes for which it was created, should now terminate its activities and be dissolved.

SEC. 2. (a) The first sentence of section 3 (a) of the Reconstruction Finance Corporation Act, as amended (15 U. S. C. 603 (a)), is amended by striking out "June 30, 1956", and inserting in lieu thereof "June 30, 1951".

(b) Subsection (f) of section 4 of the Reconstruction Finance Corporation Act, as amended (15 U. S. C. 604 (f)), is amended by striking out "June 30, 1954", and inserting in lieu thereof "June 30, 1951".

MEMORANDUM ON BILLS PENDING BEFORE COMMITTEE

On April 16 the committee directed the staff to examine bills pending before the committee dealing with the Reconstruction Finance Corporation from two aspects: (1) What provision is made for the administration of defense loans; (2) what provision is made for winding up or liquidating the Reconstruction Finance Corporation.

The RFC Act, as amended, contains the following provisions concerning the termination of the Corporation and its liquidation.

1. Section 3 (a) grants the Corporation succession through June 30, 1956, unless sooner dissolved by an act of Congress.

2. Section 4 (f) terminates the powers of the Corporation on June 30, 1954. This section would prevent new loan commitments being made after that date.

3. Section 9 provides that if the powers of the Corporation under section 4 terminate before the expiration of its succession under section 3 the RFC Board of Directors shall proceed to liquidate its assets and wind up its affairs.

4. Section 10 provides that if at the expiration of the Corporation's succession the RFC Board of Directors has not completed liquidation and winding up its affairs, the duty of completing that job shall be transferred to the Secretary of the Treasury. No definite time limit is set within which the Secretary of the Treasury must liquidate the Corporation, but when he finds that liquidation is no longer advantageous to the United States and that all the Corporation's legal obligations have been met, he is to retire any outstanding capital stock, pay into the Treasury any unused balance of the RFC's moneys and make a final report to the Congress. Thereupon the RFC is deemed to be dissolved.

Keeping these present provisions of the RFC Act in mind, the following analysis is presented of bills now pending before the committee:

S. 515, introduced on January 16 by Senator Fulbright, grants the Corporation succession through June 30, 1956, unless sooner dissolved by act of Congress.

However, it terminates the lending powers granted to the Corporation on June 30, 1954. It should be noted that in this respect the Fulbright bill is the same as the existing law. It is also the same as existing law in providing that upon the termination of the lending powers of the RFC, the RFC Governor is to proceed to liquidate its assets and wind up its affairs, and after the expiration of the succession of the Corporation this task is to be taken over by the Secretary of the Treasury.

The bill makes no specific provision for defense loans, leaving this to be handled under the provisions of the Defense Production Act of 1950. The bill makes no change in the present administration of the tin, rubber, and abacá programs by the RFC.

Senate Joint Resolution 44, introduced March 5 by Senator Kem. Although this resolution would dissolve RFC on June 30, 1951, it doesn't amend section 10 of the RFC Act. Consequently the Secretary of the Treasury would presumably fall heir to the job to liquidating the RFC after that date.

The resolution contains no provision which would save the tin, rubber, and abacá programs from liquidation.

The resolution makes no provision for defense loans now being handled in part by the RFC. Of course, the Defense Production Act of 1950 vests this lending power in the President and permits him to delegate to any Government agency or corporation (except that he is not permitted to create any new corporation).

S. 1123, introduced on March 14 by Senator Bricker. This bill terminates both the succession of RFC and its power to make loans on June 30, 1951. Presumably it leaves in effect section 10 of the RFC Act so that liquidation of the Corporation would be carried on by the Secretary of the Treasury.

The bill, however, saves the tin, rubber, and abacá programs from liquidation by transferring them to the Secretary of Commerce to administer.

It also amends the Defense Production Act of 1950 to remove from the President the power to make direct defense loans, leaving in him, however, the power to make provision for participations in the guaranties of defense loans. The bill does not limit the President's power to delegate these functions but it does specify the Secretary of the Interior, the Secretary of Agriculture, or the General Services Administrator as the effective agents through whom the President may make provision for Government purchases of metals, minerals, and other raw materials and for the encouragement of exploration, development, and mining of critical and strategic minerals and metals.

S. 1116, introduced by Senator Byrd on March 14 for himself and Senators Ferguson and Williams. This bill dissolves RFC effective upon passage of the bill, but expressly recognizes the continued effect of section 10 of the RFC Act imposing upon the Secretary of the Treasury the duty of liquidating the RFC. The bill also requires any unused balance of RFC moneys to be used exclusively for the reduction of the public debt.

It further transfers the tin, rubber, and abacá programs to the Office of Defense Mobilization for continued administration.

The bill makes no express reference to defense loans, apparently leaving them to be handled by those whom the President may delegate under the Defense Production Act of 1950.

S. 514, introduced on January 16 by Senator Fulbright, deals only with the appointment of a single Governor in lieu of the Board of Directors of the RFC.

WILLIAM F. McKENNA.

The CHAIRMAN. The first witness will be Senator Fulbright, chairman of the Subcommittee on the Reconstruction Finance Corporation.

Senator, if you will, proceed in your own way.

STATEMENT OF J. WILLIAM FULBRIGHT, A UNITED STATES SENATOR, FROM THE STATE OF ARKANSAS

Senator FULBRIGHT. Mr. Chairman, I have a statement on the act itself, but before I start I would like to ask permission to insert at the end of my remarks a letter that I have just received from the Attorney General. I have not had a chance to thoroughly digest it.

It is with regard to the penalty on the taking of fees, and so on, and he has a recommendation to make, and with the very brief attention I have been able to give it, about 10 minutes, it nevertheless appeals to me and I want to be sure it is included in the record.

The CHAIRMAN. Without objection the letter from the Attorney General will be made a part of the record following the remarks by the Senator.

Senator FULBRIGHT. If the Chairman will permit I would like to read this statement with regard to S. 515.

The CHAIRMAN. Certainly.

Senator FULBRIGHT. This bill proposes a number of changes designed to strengthen the RFC Act by clarifying the Corporation's responsibilities, and by improving its accounting methods and its financial structure. The bill has the further aim of strengthening the control which the people of the United States exercise through the Congress over the lending of public moneys to private individuals and business concerns.

The principal change proposed by this bill is the substitution of a single Governor for the present Board of Directors of the Corporation and the elimination of that Board.

Since the basic reasons for such a change have been so thoroughly discussed in the recent hearings on the RFC reorganization plan and have met with the approval of the Senate, I will not dwell on them further at this time. However, I will at this point submit my views to the committee in writing for inclusion in the record.

I ask at this point that this statement be included on that subject. (The statement referred to follows:)

The purpose of substituting a single Governor for the present Board of Directors of the Corporation and the elimination of that Board is to strengthen the management of Reconstruction Finance Corporation and in this way to enhance its true usefulness during the difficult periods which lie ahead of the Nation.

During much of its existence, RFC operated successfully under the supervision of a Federal Loan Administrator, whose authority transcended that of the RFC Directors and who functioned, in practical effect, as the General Manager of RFC. In 1947, for the first time since 1939, the Board of Directors became the governing body in RFC.

The position of Governor of the RFC would be a position of considerable responsibility. It should attract the interest of a man of adequate stature and background. Such a man would not be attracted by the prospect of serving as one of five directors with the strong possibility that his four colleagues would be of inferior stature and background. I am convinced that the organization structure proposed in this bill will make it possible for the Government to take into its employ for this position, a leader who would not otherwise be willing to devote his efforts to the public service.

A single administrator has proven successful in such lending agencies as the Farm Credit Administration and the Rural Electrification Administration.

The Hoover Commission, in its report on regulatory commissions, referred to this general problem when it said, quoting from page 5:

"Administration by a plural executive is generally regarded as inefficient."

The history of the surplus-property agencies affords an interesting analogy. In the words of the Senate Committee on Expenditures in the Executive Departments, Eightieth Congress, "In actual operation, the three-man Surplus Property Board failed to accomplish its primary objective * * * The unwieldy three-man Surplus Property Board was therefore abolished and replaced by a single Surplus Property Administrator."

For the past 2 years, the Board of Directors has been an entirely unsatisfactory vehicle of management for the important responsibilities with which RFC has been entrusted.

The study which has recently been made by the Subcommittee on Reconstruction Finance Corporation has shown that in a five-man board, it is possible for

the individual members to avoid their responsibilities by passing the buck from one to the other, or to subordinate employees of the Corporation. We have found instances in which individual members of the Board have brought about the approval of loans by interference in the work of subordinate employees and in disregard of established operating policies of the Corporation. In these cases the applications would otherwise have been rejected. We have found instances in which important loans were made upon the affirmative vote of a minority of the Board members. We have found a large number of instances in which the Board of Directors has approved the making of loans, over the adverse advice of the Corporation's most experienced examiners and reviewing officials notwithstanding the absence of compelling reasons for doing so and the presence of convincing reasons for not doing so.

Under the organization form proposed in this bill the side-stepping of responsibility would no longer be possible. If the management of RFC were vested in one man there would be no way in which he could escape the responsibility for the Corporation's acts. This change should greatly strengthen the control which the Congress will exercise on behalf of the people of the Nation over the lending of public money to private individuals and business concerns.

With the enormous growth which has taken place in the Federal establishment since the beginning of the Second World War, there has been a considerable increase in the number of people who must be appointed by the President to important positions in the Government. The number of appointments which must be reviewed for confirmation by the Senate has also increased. Necessarily, the relative importance of each appointment and the relative degree of high-level attention which can be given to the selection of officials has decreased, accordingly. In recent years the appointment of the Directors of RFC has come to be regarded as a matter of little moment.

I am convinced that the change proposed by this bill will enhance the prestige of the RFC management sufficiently so that the President will give his personal attention to the selection of the Corporation's Governor. I am convinced also that the qualifications of a nominee for this position will be examined with considerably more care in the Senate than would the nominations of five men appointed to a Board. This alone would justify the change proposed in this bill under the circumstances in which the Federal Government finds itself today.

Senator FULBRIGHT. The present bill, S. 515, seeks to strengthen the control over the activities of RFC by clarifying the responsibilities of the Corporation in three important respects. It eliminates those provisions of the present act under which the Corporation is enabled to share its responsibility for certain specific loans with other agencies of the Government, it reclassifies one important limitation imposed by the present act so as to clearly require that it be observed as a condition precedent to lending, and it imposes one new requirement as a condition precedent to the exercise of the lending power.

Under the present RFC Act the approval of the Interstate Commerce Commission and the approval of the Civil Aeronautics Board are required before the RFC can finally approve the making of loans to railroads and air carriers. The Civil Aeronautics Board is required by its organic legislation to accept the responsibility of granting such approvals. These circumstances impose on the Board the occasional necessity that it make decisions which cannot possibly be objective decisions. If the Board has approved an RFC loan to a specific carrier it can scarcely avoid the granting of a sufficient subsidy to assure that the loan can be repaid.

I interject, Mr. Chairman, that suggestion grew out of the examination of the Northwest Airlines loan year before last. We discussed it at some length at the hearings. It was one of the first loans that we examined and this suggestion grew out of those hearings; so for background material I might refer the committee or anyone who is interested to the discussion and hearings on the Northwest Airlines loan.

This bill eliminates the requirement—

Senator CAPEHART. Will the Senator yield?

Senator FULBRIGHT. Yes.

Senator CAPEHART. This particular feature of your bill, of course, asks in this instance that the ICC or the RFC do something that we are not asking of private lenders; does it not?

Senator FULBRIGHT. I do not quite follow that.

Senator CAPEHART. The law requires that the ICC approve all loans to railroads, to airlines, and so forth. In other words, if a large bank in New York City were going to loan a railroad money or loan an airline money the ICC would have to approve it. What is the difference between this bank in New York City and the RFC?

Senator FULBRIGHT. First, let me say, I do not profess to be an expert on ICC or CAB. The way I understand it presently works, and I did understand in the examination of the Northwest Airlines case, that first the CAB certifies to the RFC that this loan is a sound loan. What happens, the part I object to is that when they certify it, as a practical matter in the past, the RFC has granted those loans and the CAB from then on feels it is bound to give whatever subsidy is necessary to pay the loan. You get a vicious circle in which, regardless of the efficiency of the operation, you just get bigger and bigger subsidies.

I think the Northwest Airlines loan is a good example of it. This committee and the Senators here participated in those hearings, and at least I was very critical of those operations then. The Senator will recall about 2 or 3 weeks ago the CAB gave a tremendous retroactive grant of some \$14 million, and that is all taxpayer's money going into these operations to the Northwest Airlines, most of which, or a big part, is to pay off or help them service this loan.

Senator CAPEHART. Senator, are they not under a moral obligation to do the same thing, let us say, to a bank in New York City, if they certify to the loan?

Senator FULBRIGHT. I say, I cannot comment on what the relations are with the bank. I do not know what they do. In the first place, the bank is certainly a free agent, and my guess is the bank is able to protect its interest, or will do so better than the RFC will. You have a peculiar situation. RFC really is not concerned about its money because it knows it is going to get it out of the taxpayer by way of a subsidy from CAB. I do not know how it works the other way.

Senator CAPEHART. It works, I am certain, exactly the same. I do not see how the CAB can certify to any lesser or greater extent to RFC than they can and do to a large insurance company or a bank.

Senator FULBRIGHT. If they do, it is worse than I thought it was, because it all works out milking the taxpayer to keep up an inefficient operation.

Senator CAPEHART. Mr. Chairman, I would like to suggest that you ask our staff to study that particular feature and give us a report on it.

The CHAIRMAN. I shall do that. I will also say that I have to leave in a short while as we have the deficiency bill now pending in the Appropriations Committee. If anybody here is a member of the Senate Interstate Commerce Committee they know that Senator Johnson has had a long study made and that the CAB itself is interested in this deficiency bill that we are going to write up today in the Appropriations Committee. It involves a large sum of money to