

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, September 6, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. Szymczak
 Mr. McKee
 Mr. Draper
 Mr. Evans

Mr. Carpenter, Secretary
 Mr. Connell, General Assistant,
 Office of the Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 4, 1945, were approved unanimously.

Memorandum dated September 4, 1945, from Mr. Carpenter submitting the resignation of Mrs. Evelyn S. Gjelhaug, a file clerk in the Secretary's Office, and recommending that the resignation be accepted as of the close of September 8, 1945.

The resignation was accepted as recommended.

Letter dated September 5, 1945, to the "First State Bank of Libertyville," Libertyville, Illinois, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

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"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to "The State Exchange Bank," Yates Center, Kansas, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to Mr. Richard G. Horn, President, Association of Customers' Brokers, Peter P. McDermott & Co., New York, New York, reading as follows:

"This will acknowledge your letter of August 30 to Chairman Eccles in which you present objections to the Board's margin rules as provided in Regulation T.

"This is a matter which, as you know, is of interest to officials of the New York Stock Exchange, which has had some preliminary correspondence with us on the subject. We suggest that you take up the matter with them and also that, through them or in collaboration with them, you discuss it also with the Federal Reserve Bank of New York, which has charge of the administration of Regulation T in your district. We feel sure that at the Reserve Bank either Mr. Robert G. Rouse or Mr. Norman P. Davis, with whom officials of the Exchange have already been in touch, would be quite willing to discuss the matter further."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

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"Referring to the Board's letter of August 22, 1945 enclosing correspondence with the War Department regarding the discontinuance of Liaison Officers at certain Federal Reserve Banks, there is enclosed a memorandum signed by Colonel Mechem, Chief, Special Financial Services Division of the War Department, delegating certain additional authority to the Federal Reserve Banks in connection with Regulation V loans. After the new plan has been in effect for a few weeks, the Board will appreciate receiving any comments you think should be brought to its attention with regard to the working of the program and any suggestions you may have for its improvement.

"Since it is the general policy of the Services not to approve additional loans for production purposes and since during the next few months many of the existing production loans will mature or be paid in advance of maturity, it is assumed that the expenses of the Reserve Banks in handling the Regulation V program will decline in keeping with the decline in Regulation V activities as a whole."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"For your information and guidance there is enclosed a copy of a War Department memorandum, dated August 26, 1945, addressed to Colonel John C. Mechem, Chief, Special Financial Services Division, by Colonel Harold W. H. Burrows, Chief, Accounts Division, regarding certificates of deposit covering collections on purchased loans guaranteed by the War Department."

Approved unanimously.

Letter dated September 5, 1945, to Mr. Guy D. Wolf, President of the Appliance Dealers Trade Association, Oakland, California, reading as follows:

"This is to acknowledge and thank you for your letter of August 22, 1945, indicating the opinion of your

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"Board that instalment selling should continue to be subject to Regulation W during the reconversion period.

"The Board of Governors has been giving careful study to the situation which will result as a consequence of the sudden ending of the World War and you may be sure that the considerations to which you refer in your letter will be given special attention. The Board is conscious of the fact that inflationary dangers still exist and accordingly feels that it must not act without a full survey of the consequences."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Senator Robert F. Wagner, Chairman of the Committee on Banking and Currency, reading as follows:

"This refers to your request of August 3, 1945, for an opinion with respect to the merits of the bill S. 1320, for the establishment of a Small Business Finance Corporation, which was introduced by Senator Mead on July 27, 1945.

"This bill would set up within the Federal Reserve System a Small Business Finance Corporation, the management of which would be vested in a board of five directors to be designated by the Board of Governors of the Federal Reserve System. The Corporation would be authorized and directed to provide funds or credit to commercial, industrial, or mining businesses through several methods: by direct loans to such businesses; by the discount or purchase of their obligations or preferred stock; by the discount of such obligations for, and the purchase of such preferred stock from, financing institutions; by direct loans to financing institutions on the security of such obligations or preferred stock; and by guarantees of loans made by financing institutions to such businesses. The Corporation would have a capital stock of \$125,000,000 subscribed for by the United States. Its funds would be provided through the issuance of notes, debentures, bonds and other obligations up to one billion dollars and, in addition, it would be authorized to borrow from the Federal Reserve Banks.

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"The Board favors legislation to provide adequate financing for small businesses and it recognizes that this bill might assist in accomplishing that objective. However, the Board feels that it is not necessary to set up a new governmental corporation or to provide additional appropriations by Congress in order to accomplish this purpose and that the financing of small business enterprises can best be provided by the Wagner-Spence Bill (S. 511), which is now pending before your Committee. That bill would authorize the Federal Reserve Banks to guarantee financing institutions against loss of principal or interest on loans made to business enterprises. The reasons for which the Board favors this bill were set forth in a letter addressed to you by the Board under date of February 26, 1945.

"As you know, the Wagner-Spence Bill is in accordance with the recommendations made by the Baruch-Hancock Report on War and Postwar Adjustment Policies of February 19, 1944. The bill was strongly recommended by the Honorable James F. Byrnes, then Director of War Mobilization and Reconversion, in his report to Congress of January 1, 1945 and has had the endorsement of the Secretary of War and the Director of Contract Settlement.

"The Wagner-Spence Bill would not authorize direct loans to business and therefore would not place the Federal Reserve Banks in competition with the private banking system. On the contrary, by authorizing the Reserve Banks to guarantee, up to 90 per cent, loans which private banking institutions would not be inclined to make without such a guarantee, the bill would encourage a greater flow of private funds and credit into such marginal risks. Moreover, the bill would utilize the experience of the Federal Reserve Banks in the field of guaranteed loans, particularly that gained by them in connection with the administration of the 'V' loan program inaugurated by the President's Executive Order No. 9112 of March 26, 1942, and the more recent 'T' loan program authorized by the Contract Settlement Act of 1944. Finally, the bill would require no new appropriation by Congress, since the fund of \$139,000,000 appropriated by Congress in 1934 for the administration of section 13b of the Federal Reserve Act would be adequate to guarantee a total of more than \$500,000,000 of loans outstanding at any one time.

"For a more detailed statement of my views on this subject, there is enclosed a copy of my statement before

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"Representative Patman's Select Committee on Small Business on June 1, 1945, in which the Wagner-Spence Bill is discussed specifically on pages six and seven.

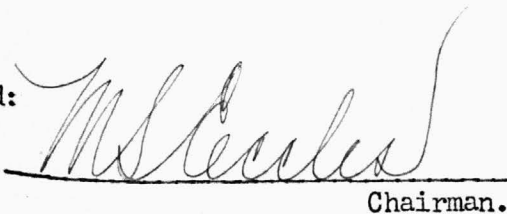
"For the reasons outlined above, the Board of Governors feels that it would be unnecessary and undesirable to establish a new governmental corporation for the purpose of financing small businesses and favors instead the enactment of S. 511."

Approved, Mr. McKee not voting.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.