

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 1, 1947.

PRESENT: Mr. Eccles, Chairman  
 Mr. Szymczak  
 Mr. Draper  
 Mr. Evans  
 Mr. Vardaman

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Morrill, Special Adviser

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 30, 1947, were approved unanimously.

Memorandum dated September 29, 1947, from Mr. Boothe, Assistant Director of the Division of Administrative Services, recommending the appointment of Mrs. Lena E. Huffman as a cafeteria helper in that Division, on a temporary indefinite basis, with basic salary at the rate of \$1,690 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that it was contemplated that Mrs. Huffman would become a member of the Federal Reserve retirement system.

Approved unanimously.

Letter to Mr. Floyd Y. Keeler, Orvis Brothers & Co., 14 Wall Street, New York 5, New York, reading as follows:

"This is in reply to your letter of September 17, 1947, to Chairman Eccles, in which you suggest that the Board should reduce its margin requirements on stock market credit.

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"The statutory mandate resting on the Board is to fix margin requirements 'for the purpose of preventing the excessive use of credit for the purchase or carrying of securities.' It is quite true, of course, that the amount of credit extended by brokers to their customers is now relatively small, but in judging whether any given amount of credit is excessive the Board must take into consideration the general economic situation of the country. On that score the outstanding fact has been that the money supply of the country, to which you refer, has been altogether excessive in relation to the available supply of goods. To make credit easy for speculators in stocks would add to the money supply without bringing about any increase whatever in the available supply of goods. That is to say, it would tend to make a dangerous inflationary situation still more inflationary.

"With regard to the points you raise about the liquidity of the market, it has been our understanding that margin trading contributes to instability rather than stability: that margin traders do more buying when the market is rising and more selling when the market is falling. Your point that the money supply is so large as to make stock market credit insignificant may also be taken as an argument that ample funds are available to purchase stocks without further recourse to credit, if people think that stocks are reasonably priced or that their prices are going higher.

"Margin requirements have not been further reduced, following the reduction from 100 per cent to 75 per cent last January, because strong inflationary forces are still active in our economy and the Board has not believed that lower margins would be in the public interest at this time. The subject of possible changes in the regulation of margins receives continuing study by the Board. Future action will depend upon economic conditions."

Approved unanimously.

Letter prepared for Chairman Eccles' signature to the Honorable Charles W. Tobey, Chairman, Committee on Banking and Currency, United States Senate, reading as follows:

"This is in reply to Mr. Hill's letter of July 31, 1947, requesting an opinion as to the merits of the bill S. 1740 which has been referred to the Senate Committee on Banking and Currency.

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"Titles I and II of this bill would provide for the establishment of a permanent Federal Small Business Corporation with a capital stock of \$125,000,000, subscribed for by the United States. The Corporation would be authorized and directed to make direct loans to commercial, industrial, or mining businesses, to purchase their obligations or preferred stock, and to guarantee loans made by financing institutions to such businesses. The Corporation would be authorized to issue notes, debentures, bonds and other obligations up to \$1,000,000,000, and would also have authority to borrow from the Federal Reserve Banks. Title III of the bill would establish a Foreign Trade Insurance Division within the Corporation with authority to provide insurance of exports; and for this purpose the Corporation would have an additional insurance capital stock of \$100,000,000 subscribed by the United States. Title IV of the bill contains provisions for the review by the Corporation of all Government contracts in order to determine whether any such contract discriminates against small businesses.

"The Board favors legislation to provide appropriate Government assistance in the financing of small businesses, but believes 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. The Board feels that the financing of small business enterprises can best be provided by a method such as that authorized by the bill S. 408, which was introduced by you on January 27, 1947, and favorably reported by the Senate Banking and Currency Committee on April 28, 1947. Under that bill, as you know, the Federal Reserve Banks, using their own funds, would be authorized to guarantee, up to 90 per cent, loans made by chartered banking institutions to business enterprises, and, at the same time, the present industrial loan authority of the Federal Reserve Banks, as contained in section 13b of the Federal Reserve Act, would be repealed and amounts totaling \$139,000,000, previously appropriated for the operations of the Reserve Banks under that section, would be released for other Governmental purposes. The Board's reasons for supporting the bill S. 408 were set forth in the statement enclosed with my letter of January 21, 1947, recommending the enactment of that bill, and also in my testimony on the bill before your Committee on April 17, 1947.

"With respect to the provisions for export insurance contained in Title III of the bill S. 1740, the Board does not believe that it would be desirable to institute a Government system of export credit insurance or of transfer guarantees at the present time. The reasons for which the Board

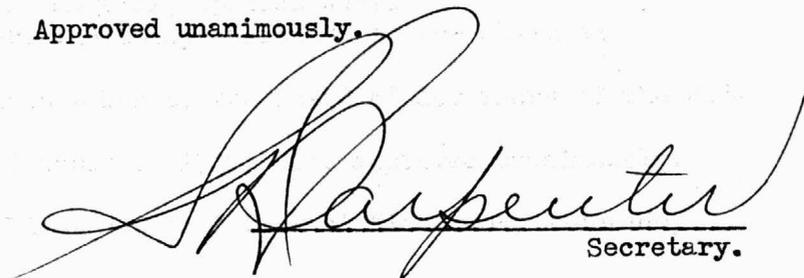
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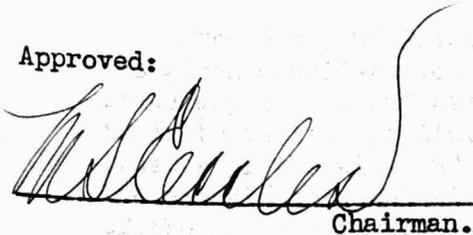
"is opposed to such insurance and guarantees were set forth in my letter of April 2, 1947, with respect to the bill S. 414, which included substantially similar provisions for export insurance; and a copy of that letter is enclosed. If nevertheless the Congress should approve the institution of such a system, the Board believes that it would be more appropriate to assign this function to the Export-Import Bank, as provided in the bill S. 414, than to the proposed Federal Small Business Corporation.

"For the reasons outlined above, the Board of Governors believes that the bill S. 1740 is unnecessary and undesirable and therefore does not favor its enactment."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.