Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, May 9, 1950. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Vardaman

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of Personnel Administration
Mr. Millard, Director, Division of Examinations
Mr. Baumann, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations

Mr. Vardaman referred to the recent appointment of Mr. Berg as assistant general auditor of the Federal Reserve Bank of Dallas, and to the death on May 4, 1950 of Mr. Novey, former general auditor of the Bank, stating that, without indicating that he would be opposed to the appointment of Mr. Berg as general auditor, he felt that, in view of criticism by the Board's examiners of certain operations of the Bank at the time of the examination in November 1949, it might not be advisable to give Mr. Berg, who had been a junior officer of the Bank at the El Paso Branch prior to his recent appointment as assistant general auditor, the full responsibility for the auditing function at this time. He added that no proposal
for appointment of Mr. Berg as general auditor had been received by the Board.

Chairman McCabe stated that on a recent visit to Dallas he had discussed fully with Chairman Parten the need for strengthening the auditing function of the Bank and that subsequently Mr. Parten wrote the Board under date of April 18, 1950, presenting Mr. Berg's name for approval by the Board as assistant general auditor for the purpose of understudying Mr. Novey, who at that time was ill. Chairman McCabe went on to say that Mr. Parten had indicated that he was strongly interested in strengthening the auditing function of the Bank, and that he understood Mr. Berg's appointment as assistant general auditor was a step in that direction.

In response to a question, Mr. Millard stated that he felt Mr. Berg had promise and was the best available man from within the Bank for the position to which he had been appointed as assistant general auditor, and that he also probably was the best available man from within the Bank to succeed Mr. Novey as general auditor. In this connection, Mr. Millard stated that he planned to visit all offices of the Dallas Bank within the next two weeks and that he would have an opportunity to observe Mr. Berg during that period.

Chairman McCabe suggested that Mr. Millard have a full discussion of Mr. Novey's successor with Mr. Parten at the time of
his visit to the Bank, particularly the possible advisability of employing an auditor from outside the Federal Reserve Bank, and that he report his discussion to the Board upon his return from Dallas.

Chairman McCabe's suggestion was approved unanimously.

Mr. Nelson withdrew from the meeting at this point and Mr. Solomon, Assistant General Counsel, Mr. Noyes, Assistant Director, Division of Research and Statistics, and Mr. Hackley, Assistant Counsel, joined the meeting.

Chairman McCabe referred to recent discussions of proposed legislation regarding financing small business and to the President's message to Congress dated May 5, 1950, with respect to problems of small and independent businesses. He went on to say that an oral request had been received from the Bureau of the Budget asking that the Board submit by tomorrow its comments on a draft of bill which would implement the President's message of May 5, the principle features of which would (1) transfer the Reconstruction Finance Corporation to the Department of Commerce, (2) authorize the Secretary of Commerce to insure loans to small business concerns, and (3) authorize the establishment by the Department of Commerce of national investment companies for providing equity capital to
small business concerns. Chairman McCabe also said that the Legal Division had revised Part II of the draft of bill submitted by the Budget Bureau so that it would place the national investment companies under the supervision of the Board of Governors instead of under the Department of Commerce and make certain other changes to conform with that revision. He also said that it appeared that under the proposed bill the Secretary of Commerce would have authority to delegate to another agency, such as the Board of Governors, the administration of provisions for insuring small business loans.

Copies of the revised draft and a memorandum dated May 8, 1950, commenting thereon were then distributed to the members of the Board and at Chairman McCabe's request portions of the revised draft of bill were read and discussed.

During the discussion Mr. Eccles stated that he was opposed to any legislation which would provide additional credit facilities for small business at this time, that he felt the Board could not consistently oppose the credit inflation now taking place and at the same time support further Government aid to credit expansion, and that if such legislation were to be enacted he would prefer that the Federal Reserve System not be the agency to administer it because the program would be criticized if it failed to expand credit and he did not feel there was much if any legitimate small
business credit need which was not now being met by the private banking system. He went on to say that he would have no objection to submitting a report which made a strong case against any legislation to implement the program outlined in the President's message and which would say that if some legislation were to be sought, in spite of the unsound conditions developing, it was believed that S. 408 as proposed by the Board in 1947 would provide adequate stand-by authority and would keep the financing in the private banking system.

Mr. Vardaman stated that he was opposed to the proposal that the Federal Reserve Banks be authorized to establish and supervise national investment companies and that if such banks were set up they should be financed with funds appropriated by Congress.

The meeting recessed and reconvened at 2:45 p.m. with the same attendance as at the close of the morning session except that Messrs. Eccles, Vardaman, and Hostrup were not present. Mr. Eccles reported to the Secretary that, for the reasons which he stated at the morning session, he would be opposed to submission of a report indicating that the Board was in favor of the proposed legislation under discussion. Chairman McCabe stated that Mr. Vardaman had informed him that he had another appointment this afternoon but that he would be opposed to legislation along the lines of the proposed bill.
There was a further discussion of the draft of bill during which Chairman McCabe talked by telephone with Mr. Evans who, he said, requested that the minutes show that he felt that the Board should respond to the request of the Budget Bureau for comments on the draft of bill with a view to making constructive suggestions which would keep additional financing in the private banking system, and that if legislation along the lines of the President's message were to be enacted, he felt strongly that the Federal Reserve Banks should have supervision of the establishment and operation of capital banks as well as the insurance of loans to small business.

Chairman McCabe also said that he discussed the proposal with Mr. Draper yesterday, that Mr. Draper stated he was in favor of legislation which would provide stand-by authority for loans to small business concerns preferably along the lines of the Bill S. 408, but that he would be in favor of legislation along the lines of the draft of proposed bill with the changes suggested to place the supervision of national investment companies and insurance of small business loans under the Board.

During the ensuing discussion Chairman McCabe requested that the Legal Division prepare a revision of the draft bill in the light of the suggestions made at this meeting.

Chairman McCabe's suggestion was approved with the understanding that, in accordance with the informal views
of a majority of the members of the Board, a copy of the revised draft would be given to the Budget Bureau and sent to the Presidents of the Federal Reserve Banks for their confidential information.

Messrs. Leonard, Kenyon, and Hackley withdrew at this point.

Reference was made to the bank holding company bill introduced by Senator Robertson on Friday, May 5, 1950. Mr. Baumann stated that the bill was substantially the same as the substitute bill ordered printed by Senator Robertson's subcommittee on April 25, that it did not have any of the changes discussed at subsequent meetings of the Board and to which Senator Robertson had tentatively agreed between September 27 and May 3, and that in introducing it, Senator Robertson stated that the bill had the approval of interested agencies other than the Board but that the Board and at least two of the members of the subcommittee (Senators Douglas and Tobey) were strongly opposed to some of its provisions.

Chairman McCabe stated that Senator Robertson called him on the telephone this noon and stated that the subcommittee would meet tomorrow in executive session, that no persons other than members of the committee and its staff would be present, and
that he (Senator Robertson) planned to take the position that the bill he had introduced should be reported by the committee. Senator Robertson also stated, Chairman McCabe said, that he could get support for his substitute bill and felt he could get it through Congress, but that he was not sure he could get it through with the changes that the Board would like.

There was a general discussion of what if any steps should be taken in connection with Senator Robertson's bill and it was agreed that, in view of the position taken by Senators Douglas and Tobey as members of the subcommittee, no action should be taken by the Board unless a request was received from the committee.

Mr. Sherman reported that Mr. Eccles had informed him at the beginning of the afternoon session that he was opposed to submitting any further statements to Senator Robertson with respect to the substitute bill and that if a statement were requested he would suggest that the Board respond by saying that it had furnished the Committee with a full statement of its views with respect to the bank holding company legislation and had no further comments to make.

Mr. Szymczak then raised the question what steps should be taken by the Board to correct the impression given by Senator Robertson at the time he introduced the substitute bill that the Board had not been willing to consider suggested changes
from its original proposal, but no conclusion was reached as to any action to be taken.

At this point all of the members of the staff with the exception of Mr. Sherman withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 8, 1950, were approved unanimously.

Memorandum dated May 3, 1950, from Mr. Noyes, Assistant Director, Division of Research and Statistics, recommending an increase in the basic salary of Mrs. Ruth H. Reehling, a clerk in that Division, from $3,850 to $3,975 per annum, effective May 14, 1950.

Approved unanimously.

Letter to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of April 24, 1950, concerning the proposed further delay in establishment of the branch of the Seattle Trust and Savings Bank, Seattle, Washington, between 180th and 185th Streets on Aurora Avenue, outside the city limits of Seattle, which was approved by the Board of Governors on July 2, 1946.

"It is noted that the management wishes to give further study to the trend of business in the community, particularly because of the development of an area known as Northgate in the vicinity of the approved location, with a view to locating the branch most advantageously. It is assumed that the member bank is aware that the Board's
"approval pertains only to the establishment of the branch at the specified location. If another location is desired, a formal application should be submitted for consideration.

"At the time that the application for permission to establish and operate a branch at the approved location was approved by the Board of Governors, representations were made to the effect that there were no banking facilities within a radius of over four miles and that the branch was to serve a rapidly developing and extensive residential and business area north of the city limits having an estimated population of not less than 32,000. It appeared, therefore, that the proposed facilities were needed. No facilities have been provided and almost four years have elapsed. It is noted that the State Supervisor of Banking offers no objection to the deferment of the establishment of the proposed branch for a further period. In the circumstances, it appears that there was no need for the branch at the time it was approved or that the public has been denied a needed facility. Furthermore, it is possible that knowledge of the approval given the Seattle Trust and Savings Bank for permission to establish a branch at the specified location has discouraged any effort by competing banks to provide the needed service. The Board would be glad to have further information on this point."

Approved unanimously.

[Signature]
Assistant Secretary.

Approved:
[Signature]
Chairman.