

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 24, 1950. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, 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. Young, Director, Division of
 Research and Statistics
 Mr. Solomon, Assistant General Counsel
 Mr. Schmidt, Economist, Division of
 Research and Statistics

Mr. Vardaman stated that he had asked that this meeting be held for the purpose of discussing the Board's position with respect to proposed legislation designed to provide aid to small business, and that he would like to know whether members of the Board's staff had been authorized to urge adoption of a bill in the form introduced in the Senate and House on May 19, 1950, S. 3625 and H. R. 8565 and H. R. 8566, to be known as the Small Business Act of 1950.

In response to Mr. Vardaman's inquiry, Chairman McCabe made a statement substantially as follows:

"This question has been discussed at a number of meetings of the Board, some of which Mr. Vardaman has not attended. The Board has not taken any definite position urging a bill in the form of S. 3625 or the

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"identical bills H. R. 8565 and H. R. 8566, but staff members have been authorized to indicate in their discussions with representatives of the Bureau of the Budget our dislike of certain provisions that have been proposed. The Board's position with respect to this legislation has been discussed upon many occasions. Last year during the hearings of the Joint Committee on the Economic Report, representatives of small business groups began visiting us for the purpose of discussing the question. Mr. Bimson of the Valley National Bank of Phoenix, Arizona, with his plan for insured loans, Abbott Smith of New England who has been active in the Small Business Council of the Committee for Economic Development, Harry Miller of Philadelphia who is a member of the Small Business Advisory Committee of the Secretary of Commerce - they and others came to see us. David Scoll, an attorney who was assisting Senator O'Mahoney, Chairman of the Joint Committee on the Economic Report, came to see us and I reported his visit to the Board at a meeting on June 7, 1949. Every time any individual or group came to see us we received them and heard their story. Finally the pressure on the part of small business groups reached such a point that I called Secretary of Commerce Sawyer on the telephone and said that these groups were coming in here, that the pressure for legislation was increasing, that various types of legislation were being discussed, and that I thought he as Secretary of Commerce should hear what they had to say. I also suggested that it might be well if he would have a conference at which representatives of the Reconstruction Finance Corporation, the Federal Housing Administration (because of Mr. Bimson's suggestion for insured loans on the FHA principle), and other interested groups would be present. He held such a conference and in addition to those I have mentioned it was attended by representatives of a number of banks such as Mr. Kelley of The Pennsylvania Company in Philadelphia, Everett D. Reese of the Small Business Credit Commission of the American Bankers Association, and Roger Steffan of the National City Bank of New York. Mr. Riefler also attended and reported to me at length on what took place at the conference. Nothing definite was done at the conference except to take under advisement the questions that had been raised.

"Following that conference, there appeared in Congress a bill by Senator O'Mahoney, S. 2975, to establish

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"corporations to assist financial institutions in making credit available to commercial and industrial enterprises and to provide capital for such enterprises; the Lucas bill, S. 2947, to amend the Reconstruction Finance Corporation Act in order to provide more effective financial assistance for small business and a bill by Senator Maybank, S. 2943, to create a coordinator of small business in the White House. Our staff was consulted by various groups including small business men, the Budget Bureau, Mr. Scoll, and others. Then you will recall Senator O'Mahoney called on me to go to New York to meet with the insurance executives and a few representative bankers to discuss his plan for capital banks and I reported that invitation at the meeting of the Board on February 10, 1950, at which it was the consensus of the members of the Board that I should use my judgment as to whether to attend the meeting and if I did, to what extent I should discuss the bill. I attended the meeting and subsequently reported to the Board that after presenting his ideas, Senator O'Mahoney indicated the subject was wide open but that he felt there was a great need for some assistance in financing small- and intermediate-sized business. No definite conclusions were reached at the meeting, but some of those present seemed to think the capital banks might be worth a trial.

"In the interim, President Williams of the Federal Reserve Bank of Philadelphia discussed Senator O'Mahoney's proposal at great length with Philadelphia bankers and I asked Mr. Riefler to attend one of those meetings at which many negative features as well as some positive features were brought out. When I went to California a few weeks ago I gave the directors of the San Francisco Federal Reserve Bank and its branches the history of these discussions of small business aid both at the Board and among these different groups. I told them that we had discussed all angles of the proposed legislation with many different groups. A few days ago at the request of Mr. Fleming, member of the Federal Advisory Council from the Fifth Federal Reserve District, I met with the American Bankers Association Committee on Government Borrowing at the Treasury, and after discussing possible new Treasury financing there was an extensive discussion of the proposed small business legislation, including the O'Mahoney bill and the proposed administration bill to carry out the points made in the President's message to

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"Congress on small and independent businesses on May 5, 1950. On May 16 when I had lunch with the Federal Advisory Council we went over the whole matter at a discussion which lasted until 3 o'clock.

"As you would expect, various opinions were expressed by the members of the Federal Advisory Council and the American Bankers Association Committee on Government Borrowing. One or two said they would accept the O'Mahoney bill in preference to the administration bill if it was found necessary to accept some legislation. I have not found anyone except small business people and some of the people in Government who have any enthusiasm for the Bimson plan for insuring small business loans. I think the bankers, if they had to choose between the two plans, would choose overwhelmingly for the revised O'Mahoney bill rather than the bill introduced by Senator Maybank and Representatives Spence and Patman last Friday. If they had to vote on the O'Mahoney bill or no legislation, you would probably get a majority for the latter.

"As to the question of urging any particular bill, we have not been in a position of saying the Board was committed to any plan up to this point. We have kept an open mind. We have made our staff available to any and all groups that wanted to consult and get their opinion. I presume that we will be asked to testify on the bill introduced last week as the administration bill and at that time we will have to be prepared to answer questions as to whether any bill is desirable and if so which we feel is the best."

In response to a question from Mr. Vardaman, Mr. Vest stated that up to the present time the staff had concentrated on matters having to do with the form of the legislation to be introduced in Congress, that bills had now been introduced, and that while it could not be known at this time whether any bill would be enacted, it had been the thinking of the staff that as soon as possible the staff should study the kind of program that might be followed so that the regulations of the Board could be put into effect and other steps

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could be taken to carry out the purposes of the law within a minimum period of time after enactment. Mr. Vest also stated that the major problem under the proposed legislation would be that of prescribing the regulations for operation of the national investment corporations, including the standards which would go to make up the definitions of business enterprises eligible for assistance. He also stated that the members of the staff working on the matter felt that there should be prepared a draft of definition and regulation which could be sent out in tentative form to the Federal Reserve Banks for comment. He further stated that it would be desirable for consideration to be given as soon as possible to the formation of at least one national investment company immediately on passage of the legislation, so that all possible steps looking toward the organization of such a company could be completed before that time.

Mr. Vardaman expressed the view that any definition of business enterprises eligible for assistance should be written into the law by Congress and not left to determination by the Board.

In response to Mr. Vardaman's comment, Mr. Vest stated that he felt ideally it would be preferable to have a definition in the law so that it would be clearly spelled out and available to all interested persons at the outset, but that there were practical objections to such a plan since the original definition would of necessity be experimental and might have to be changed, and that on the whole he felt it

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better not to have it written in the law since in that event any change would require further action by Congress.

There was a further discussion of the possibilities of hearings in connection with the legislation and of the contents of a statement which Chairman McCabe might submit on behalf of the Board in the event he was called to testify. During the discussion, Chairman McCabe suggested that the staff be requested to prepare a draft of such statement for the consideration of the Board.

Chairman McCabe's suggestion was approved unanimously.

At this point all of the members of the staff with the exception of Messrs. Carpenter and 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 23, 1950, were approved unanimously.

Memorandum dated May 22, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the resignation of Miss Joy W. Lord, a clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business May 26, 1950.

Approved unanimously.

Memorandum dated May 22, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appoint-

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ment of Miss Marianne Stuart as a page in that Division, with basic salary at the rate of \$2,200 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated May 23, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the resignation of Mrs. Esther G. Peck, a statistical clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business May 26, 1950.

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of May 19, 1950, the Board approves the appointments of Robert A. Cooper and William A. Coulter, at present assistant examiners, as examiners for the Federal Reserve Bank of Cleveland. Please advise us of the dates upon which the appointments become effective and as to the salary rates."

Approved unanimously.

Letter to Mr. Weigel, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Chester C. Davis as President at the rate of \$25,000 per annum and to Mr. F. Guy Hitt as First Vice President at the rate of \$18,000 per annum for the period June 1, 1950, through February 28, 1951, the date their terms of office will expire.

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"These rates, according to the list attached to your letter of May 19, 1950, are the rates which were fixed by the Board of Directors at its meeting held on May 11, 1950.

"The Board of Governors also approves the payment of salary to the following officers at the rates indicated, which, according to the list attached to your letter of May 19, 1950, are the rates which were fixed by your Board of Directors for the period June 1, 1950, through May 31, 1951.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
O. M. Attebery	Vice President	\$17,000
W. H. Stead	Vice President	13,000
W. E. Peterson	Vice President	13,000
S. F. Gilmore	Assistant Vice President	10,000
H. H. Weigel	Assistant Vice President & Secretary	9,500
J. H. Gales	Assistant Vice President	9,500
F. L. Deming	Assistant Vice President	10,000
F. N. Hall	Assistant Vice President	7,500
G. O. Hollocher	Assistant Vice President	7,500
D. M. Lewis	Assistant Vice President	8,000
E. R. Billen	Assistant Vice President	7,000
J. J. Christ	Assistant Vice President	7,000
J. C. Wotawa	General Auditor	9,000
H. B. Kline	Counsel & Assistant Secretary	8,500
<u>LITTLE ROCK BRANCH</u>		
C. M. Stewart	Vice President & Manager	11,000
Clifford Wood	Assistant Manager	6,800
Clay Childers	Assistant Manager	5,800
<u>LOUISVILLE BRANCH</u>		
C. A. Schacht	Vice President & Manager	11,000
Fred Burton	Assistant Manager	7,500
L. K. Arthur	Assistant Manager	6,300
L. S. Moore	Assistant Manager	5,800

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<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>MEMPHIS BRANCH</u>		
P. E. Schroeder	Vice President & Manager	\$10,000
S. K. Belcher	Assistant Manager	7,000
C. E. Martin	Assistant Manager	7,000
H. C. Anderson	Assistant Manager	5,300

"Inasmuch as Mr. Harold B. Kline's title was changed from Counsel to Counsel and Assistant Secretary, effective May 11, 1950, as reported in your letter of May 15, 1950, the Board also approves the payment of salary to Mr. Kline as Counsel and Assistant Secretary at the rate of \$8,500 per annum for the period May 11, 1950, through May 31, 1950."

Approved unanimously.

Letter to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"In accordance with the request contained in your letter of May 19, 1950, the Board approves the appointment of Brenton C. Leavitt as an assistant examiner for the Federal Reserve Bank of Kansas City. Please advise us of the date when the appointment is made effective and also as to salary rate."

Approved unanimously.

Letter to Mr. Smyth, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of May 18, 1950, requesting the Board's approval for the payment of salary to an employee at the Federal Reserve Bank of Dallas at a rate which exceeds the maximum of the grade in which his present position is classified.

"For the reasons outlined in your letter, the Board of Governors approves the payment of salary, effective June 15, 1950, to Mr. Johnsy F. Parrish at the rate of \$3,036 per annum, which rate is in excess of the maximum of the salary grade in which his position is cur-

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"rently classified."

Approved unanimously.

Letter to Mr. Parten, Chairman of the Board of the Federal Reserve Bank of Dallas, reading as follows:

"Your letter of May 16, 1950, addressed to Chairman McCabe, enclosing an extract from the minutes of the executive session of the Board of Directors of the Federal Reserve Bank of Dallas on the subject of salaries for the President and First Vice President of the Bank, has been given careful consideration by the Board of Governors.

"For reasons which have been discussed on several occasions, the Board feels that it would not be justified in approving an increase in the level of these salaries at this time. Please be assured, however, that the Board appreciates the interest of the directors in the management of the Bank which prompted the adoption of this resolution."

Approved unanimously.

Telegram to Mr. Wilbur, Federal Reserve Agent of the Federal Reserve Bank of San Francisco, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to "Escrow & Loan Service Co., Incorporated", Pasadena, California, entitling such organization to vote the stock which it owns of the "Pasadena-First National Bank", Pasadena, California, and at any time prior to August 1, 1950, to act upon a proposal or proposals (1) to increase the capital stock of such bank, and (2) to amend the articles of association of such bank to conform to articles recommended by the Comptroller of the Currency, provided that all action taken shall be in accordance with a plan satisfactory to the

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Comptroller of the Currency.

Approved unanimously.

Letter to Honorable Frederick J. Lawton, Director, Bureau of the Budget, Washington 25, D. C., reading as follows:

"Reference is made to your circular memorandum dated May 12, 1950 (Bulletin No. 50-16), in which you state that the Bureau of the Budget has been requested by the Chairman of the House Committee on Expenditures in the Executive Departments to study the various reports now required to be made to the Congress in order to make a compilation of those which could be eliminated without detriment to the public service.

"The only report which the Board of Governors is required by statute to submit to the Congress is 'a full report of its operations', which the seventh paragraph of section 10 of the Federal Reserve Act (42 Stat. 621, codified at U.S.C., Title 12, sec. 247) requires it to submit annually to the Speaker of the House of Representatives. The tenth paragraph of section 10 of the Federal Reserve Act (49 Stat. 705, codified at U.S.C., Title 12, sec. 247a) provides for the inclusion in the Board's annual report of a record of action taken by the Board or by the Federal Open Market Committee on questions of policy, and section 14(b) of the Federal Reserve Act (61 Stat. 56, codified at U.S.C., Title 12, sec. 355) provides for inclusion in the Board's annual report of detailed information with respect to direct purchases and sales from or to the United States of direct or fully guaranteed obligations of the United States. Also, section 23(b) of the Securities Exchange Act of 1934 (48 Stat. 901, codified at U.S.C., Title 15, sec. 78w) provides for the inclusion in the Board's annual report of material relating to the Board's responsibilities under the Securities Exchange Act.

"In view of the usefulness of this report as a source of information to the Congress and the public concerning the Board's operations, the Board does not feel that it could be discontinued at this time without detriment to the public service."

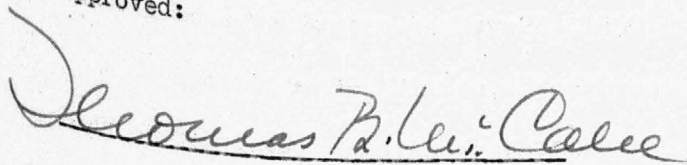
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Approved unanimously.


Secretary.

Approved:


Chairman.