Minutes for April 8, 1958

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin		x
Gov. Szymczak	x	
Gov. Vardaman 1/		x
Gov. Mills	~~x~~	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson	x	

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, April 8, 1958. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson 1/
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Robinson, Adviser, Division of Research and Statistics
Mr. Koch, Associate Adviser, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Brill, Chief, Capital Markets Section, Division of Research and Statistics

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of Boston approving the establishment without change by that Bank on April 7, 1958, of the rates on discounts and advances in its existing schedule.

Investment in bank premises (Item No. 1). Pursuant to the recommendation contained in the file on the matter which had been circulated to the members of the Board, unanimous approval was given to a letter to the Union Bank and Trust Company, Helena, Montana, for

1/ Withdrew from meeting at point indicated in minutes.

transmittal through the Federal Reserve Bank of Minneapolis, approving a proposed investment in bank premises in excess of the capital stock of the bank. A copy of the letter is attached as Item No. 1.

Small business legislation. With reference to the discussion at yesterday's meeting concerning letters which had been received by members of the Board from Congressman Patman, as Chairman of the House Select Committee on Small Business, in which an invitation was extended to testify before the Committee in executive session regarding problems of small business financing, Governor Robertson read his proposed reply which would state that he did not see how he could aid the Committee in its study over and beyond the testimony previously presented by Chairman Martin and the information which had been compiled by the Board's staff and furnished to the Committee. Therefore, although he was grateful for the invitation, he did not plan to be present although he would of course arrange to be there if for any reason Mr. Patman or the Committee desired his presence.

Governor Balderston also read his proposed reply which would advise that plans called for him to be on the West Coast on official business on the date mentioned by Mr. Patman.

There ensued a further discussion of this matter during which Governors Szymczak and Mills expressed the tentative view that they would feel obliged to accept the invitation to testify. The discussion brought out that the members of the Board had not been invited to appear as a group. Rather, they would appear individually over the course of a two-day period (April 16 and 17).

With respect to the possible line of questioning, Mr. Young reported conversations with Counsel for the Select Committee on Small Business which afforded some indication that the completed parts of the Board's small business financing study would be a principal object of interrogation. There was general agreement with an observation by Governor Balderston to the effect that this development emphasized the importance of reaching a Board position in respect to the problem of small business legislation.

Governor Robertson then stated that he was satisfied that his proposed reply to Mr. Patman was appropriate and that he intended to send it. Governor Balderston indicated that it was his intention to send a reply along the lines of the draft he had read, and it was understood that the other members of the Board would make such response as in their judgment seemed appropriate.

At this point Mr. Young reported that there had been received late yesterday from the staff of the Senate Banking and Currency Committee a copy of a possible legislative proposal on which the staff of the Committee had been working. He said that a hasty review of the document indicated that responsibility for the program envisaged by this proposal would not be placed within the Federal Reserve, but rather that a "Small Business Investment Administration" would be created. He went on to say that the document would be studied more carefully and that a summary of it would be made available to the members of the Board within the next few days. In a further comment, Mr. Young said that, according to advice received by Chairman Martin yesterday, it now appeared that the Talle Bill (H.R. 11576) would definitely receive the support of the Administration.

These comments led to a question by Governor Balderston regarding whether the members of the Board saw any strong preference as between administration of a small business financing program by an existing agency or a newly organized agency, assuming that the administration of such a program was not assigned to the Federal Reserve System. While the ensuing comments did not produce any definite opinion, those members of the Board who spoke on the matter seemed to feel that there was something to be said for utilizing an existing agency of the Government. They suggested that it was doubtful whether problems of management and personnel would be made any easier through the organization of a new agency for this particular purpose.

At the request of the Board, Mr. Koch then presented in a preliminary form certain personal observations based on the data compiled in the first two parts of the Board's study of small business financing. His comments were divided into those relating to the adequacy of financing through existing financial institutions and those concerning the differential effect, if any, of the recent period of monetary restraint on financing available to businesses of various sizes. With respect to the adequacy of financing in terms of short-term credit, he said that the evidence produced by the study showed a large volume of credit available to small businesses from a variety of sources and in a variety of forms. As to intermediate-term credit, there was considerable evidence that the volume of credit available to small business was large and growing, both from commercial banks and other sources. In the area of longer-term financing, however, the evidence was not so clear. Most long-term credit appeared to be available in the form of real estate mortgages, although in the case of equity capital the evidence tended to show that for industries with unusual growth and profit potentialities, high-cost money was available from individuals and some private investment organizations. For more routine operations, the volume of money available seemed to be considerably less. The completed parts of the study, he pointed out, did not cover either internal financing or financing through sources such as friends and relatives, and there were indications that such sources were important.

In summary, it was Mr. Koch's conclusion that, if there is actually a gap in the small business financing picture, the gap is in the area of longer-term debt and equity funds. There had been many attempts to fill this gap in the past and this experience left a confusing picture from the standpoint of whether it could be filled on an economically sound basis. Nevertheless, he rather concluded that another attempt probably was in order. If so, it seemed that (1) provisions with respect to rates charged should be liberal and flexible; (2) the character of the financing ought to be flexible and adaptable to particular needs; (3) any attempt ought to be experimental and exploratory in nature; (4) every effort should be made to obtain private participation; (5) management of the program would be a key factor; and (6) because of the problem of allocating available credit, every effort should be exerted to make the operation economically sound and self-sustaining.

Mr. Koch then turned to an examination of the results of the business loan surveys conducted in October 1955 and October 1957 insofar as these surveys indicated the effects of a period of monetary and credit restraint upon borrowers of different sizes. Basically, these data showed that during this period commercial banks increased their loans to larger businesses more, relatively speaking, than their loans to smaller businesses. However, it appeared that the main reason may have been the greater relative demand of the larger businesses for outside financing, for this was a period marked by a capital goods boom and the demand for credit was heaviest in industries dominated by large concerns. Nevertheless, there was probably still some differential effect on small business because bank loans went up more for larger businesses in almost all types of industries. One reason for this may have been the fact that some banks have relatively fixed interest rate ceilings on all loans and the return on loans to large borrowers went up more. Another reason may have been that many bankers are reluctant to take on higher-risk loans, and small businesses as a group are less favorable credit risks than large borrowers. Also, small businesses tend to become less creditworthy over the course of a business boom. In the case of insurance companies, similar findings were developed but in the case of other financing sources the evidence was not so clear.

In concluding this part of his remarks, Mr. Koch pointed out that the findings had to be examined against the background of what was happening to the business community in the 1955-1957 period. In any event, however, the study did indicate that credit restraint, as it was applied in this period, does have differential effects. This suggested that research in the future probably ought to study these effects carefully for there might be a time when the effects of a policy of restraint on different sectors of the business economy would call for offsetting action.

In response to a question as to his choice among alternative proposals in the field of small business legislation, Mr. Koch said that his personal preference would be the approach of the Sparkman bill and that he would favor setting up two or three capital banks for small business with personnel drawn from the Federal Reserve Banks. He felt that this would provide good management and some opportunity for private financing. Therefore, as an economist, that was the kind of operation that he would tend to prefer. As a second choice, if it were decided that the Federal Reserve should stay out of this field, he would favor the approach in the Talle bill, which was in a sense the approach in the

Sparkman bill without the superstructure of the Federal Reserve. He would lean toward placing the administration of such a program in an existing agency.

Following a review of the provisions of the Talle bill by Mr. Brill, Governor Robertson and Mr. Carpenter withdrew from the meeting to attend a meeting of the Standing Inter-Agency Committee on Bank Supervisory Matters. Mr. Thomas also withdrew at this point.

Governor Balderston then called upon Mr. Young for suggestions as to procedure, and Mr. Young stated that the analysis of parts 1 and 2 of the small business financing study which had been summarized by Mr. Koch would be available to the members of the Board in writing within the next few days. It was his thought that a statement by the Board to the interested Congressional committees on the subject of small business legislation could draw heavily on that part of the analysis dealing with the question of a gap in the adequacy of small business financing facilities. He did not feel that the part of the analysis dealing with the differential impact in a period of monetary and credit restraint need be covered to any extent in such a statement, although it would be desirable to have some material on this phase of the matter available if the subject should come up in the course of testimony. He went on to suggest that a statement by the Board might then move into the area of guides to public policy in the drafting of legislation, and here a model was available in the form of the staff memoranda which had been distributed to the members of the Board, including the memorandum of March 11, 1958, and those distributed with his memorandum of March 26, 1958.

Mr. Young continued by saying that the Board's staff had been in close touch with the Treasury in connection with the Treasury's development of a small business financing proposal, which had now resulted in the Talle bill. As he read the draft legislation prepared by the staff of the Senate Banking and Currency Committee, to which he had referred earlier, it appeared to him that this had been influenced to some extent by the same considerations.

In response to a question, Mr. Young said that in the new draft the staff of the Senate Banking and Currency Committee appeared to have drawn from parts of the Sparkman bill, the Johnson-Patman bills, and also the Talle bill. There were some features of the new draft that he felt sure the Board would like to see handled differently and there would be an opportunity for the Board's staff to discuss these aspects with the Committee staff tomorrow at a luncheon meeting which had been arranged. On the basis of that discussion, it seemed possible that some of the questionable features might be eliminated.

In response to another question, Mr. Shay said that the Senate Banking and Currency Committee appeared to be considerably ahead of the House Banking and Currency Committee in this field at the moment. As an indication of this, the staff of the House Committee was not as eager to receive the completed parts of the Board's small business study. He went on to say that when the hearings on small business legislation commenced before the Senate Committee on April 21, it might develop that legislation along the lines of the draft bill received from the staff of that Committee yesterday would have the support of the Committee Chairman, and possibly the support of Senator Johnson. He also noted that the House Select Committee on Small Business does not have authority to report a bill.

In view of a question raised by Governor Shepardson about the availability of a summary of the various small business bills, reference was made to a document prepared recently by the Subcommittee on Legislation of the Presidents' Conference. Copies of this document had now become available on an informal basis and it was understood that they would be distributed to the members of the Board.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 2) approving the appointment of Harlan H. Todd, Stanley T. Traska, James K. Sanford, Leo G. Hafford, and Edward R. Gossett as examiners.

Governor Shepardson also approved today on behalf of the Board the destruction, either on an outright basis or after a specified retention period, of certain material in the Board's files listed in a memorandum dated March 12, 1958, from Mr. Carpenter, Secretary of the Board.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
4/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1958

Board of Directors,
Union Bank and Trust Company,
Helena, Montana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Minneapolis, the Board of Governors approves an investment in bank premises by Union Bank and Trust Company, Helena, Montana, of not to exceed $925,000 for the purpose of constructing new banking quarters. This amount includes land cost of $156,500, architect's fee of $45,700, and building construction costs of $715,000. It is noted that capitalized costs are to be depreciated at the maximum rate allowed by the Internal Revenue Service.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
4/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1958

CONFIDENTIAL (FR)

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the requests contained in your letters of March 26, 1958, the Board approves the appointment of Harlan H. Todd, Stanley T. Traska, James K. Sanford, Leo G. Hafford, and Edward R. Gossett as examiners for the Federal Reserve Bank of Cleveland.

At the time of the approval of Mr. Gossett's appointment as an assistant examiner on April 2, 1952, he owned 145 shares of the common capital stock of The Harrison Deposit Bank and Trust Company, Cynthiana, Kentucky, a nonmember bank, and the approval of his appointment was given with the understanding that he would not participate in the examination of banks in the State of Kentucky while continuing to be a stockholder in such bank. On the assumption that he has continued to hold such stock, the Board's approval of his appointment as an examiner is given with the understanding that, as long as he is a stockholder in such bank, he will not participate in any examination of the bank or any other bank situated in the same county, or any adjoining county, as The Harrison Deposit Bank and Trust Company, Cynthiana, Kentucky.

Please advise the Board if the appointments are not made effective May 4, 1958, as planned.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.