# United States Senate

COMMITTEE ON BANKING AND CURRENCY

June 24, 1957

Honorable William McChesney Martin
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Mr. Chairman:

You will recall that during your testimony before the Small Business Subcommittee of the Committee on Banking and Currency on Thursday, June 20, 1957, it was necessary for me to leave the hearings. I had intended to obtain your views on certain matters affecting the credit needs of small businesses, and I regret that I could not return to the hearing prior to the conclusion of your testimony. Consequently, this letter contains several questions upon which I would appreciate receiving your comments as soon as possible, in order that they be made a part of the record of the hearings held on June 20, 1957.

On page 42 of the Economic Report of the President, transmitted to the Congress on January 23, 1957, there appears the following statement:

> "In the course of the year it became increasingly apparent that tighter credit conditions affected unevenly different sectors of the economy and different types of businesses. New and smaller business firms appeared to find it more difficult to satisfy their financing requirements than established and larger concerns. Also, the changes in the cost and availability of credit exerted especially severe effects on home building."

This statement, together with other observations which have come to my attention, prompt me to ask your reply to or comment upon the following questions:

1. Do you agree that "tighter credit conditions affected unevenly different sectors of the economy and different types of businesses"?

2. Is an uneven effect of credit and monetary policy bad for the economy as a whole?

3. In general, do higher interest rates and a reduced supply of credit in relation to demand pose more serious problems for small businesses than for large businesses?

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4. On the basis of such factual information as may be available to you, what additional volume of credit to small businesses would be necessary to maintain their fair share of the total quantity of credit available?

5. If this additional volume is greater than the lending authority of the Small Business Administration, how can the supply of credit for small businesses be increased?

6. Could the Board of Governors of the Federal Reserve System take steps to increase the supply of credit for small businesses through policy statements or advice to member-institutions?

7. Is it feasible to increase the supply of credit available to small businesses solely through the lending program of the Small Business Administration?

8. When the Congress attempts to alleviate the uneven effects of policies which restrain credit, it is frequently said that such attempts are inflationary. If the Congress decides that such direct lending programs are essential, cannot the Federal Reserve System take action through open-market operations or other means to offset any inflationary tendencies which might otherwise result?

Your early attention to this request will be appreciated.

Sincerely yours,

Joseph S. Clark, U.S.S.