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SELECT COMMITTEE ON SMALL BUSINESS
OF THE
HOUSE OF REPRESENTATIVES OF THE UNITED STATES
EIGHTY-FIFTH CONGRESS
WASHINGTON, D. C.

COMMITTEE ROOM:
123 HOUSE OFFICE BUILDING
NATIONAL B-3120, EXT. 1846

EVERETTE MACINTYRE
STAFF DIRECTOR AND
GENERAL COUNSEL

WM. SUMMERS JOHNSON
CHIEF ECONOMIST

MRS. MARIE M. STEWART
CLERK

June 25, 1957

Hon. Wm. McC. Martin, Jr.
Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Mr. Martin:

This is with further reference to your letter of May 10, in which you suggest the possibility of a broad study of small business financing problems which would meet the needs and interest of several other Committees of both the House and the Senate.

Frankly, when Mr. Young brought this letter by my office and presented it as an alternative to my earlier request for information on small business financing, I was not favorably impressed with the suggestion since, among other reasons, it occurred to me that a proposal which hinges upon obtaining cooperation and agreement among so many different Committees would unnecessarily delay matters.

After further reflection on your letter however, and upon rereading it, I am now of the view that your suggestion for a broad fully-rounded study of all aspects of small business financing is one of considerable vision which I did not immediately appreciate.

Consequently, I am now exploring this proposal with some of the other Committees which you mentioned, and it seems to me quite possible that this will eventuate in a later request for a study of the kind that you have suggested.

I am

Sincerely yours,

Wright Patman

May 10, 1957.

The Honorable Wright Patman,
House of Representatives,
Washington 25, D. C.

Dear Mr. Patman:

This is in reply to your letter of April 30 expressing interest in certain data relative to small business financing along the line of material included in the Board's survey of bank loans to business as of October 1955.

There is a very real need for solid information on the financial position and problems of small business that goes far beyond the type of data obtainable by surveying bank loans. That need is for the best and most comprehensive factual and analytical material it is possible to develop on this matter of wide and vital interest.

This is a question with which the Board has been concerned for some time. However, it is not a matter of concern to the Board alone, nor one exclusively in the Board's domain. The matter is of equal concern to a number of committees of the Congress and several departments and agencies of the executive branch.

The problems of small business, in respect to credit and capital and related matters, have, for example, drawn the attention for some years of the Small Business and the Banking and Currency Committees of the House and Senate, the Joint Economic Committee, the Council of Economic Advisers, the Commerce and Treasury Departments, the Small Business Administration, the Federal Trade Commission, the Securities and Exchange Commission, and others. Also, the subject will doubtless be of interest in connection with the study of financial matters that the Senate Finance Committee is planning at this time.

If the true needs for information relative to the financing problems of small business are to be met, it would appear to us highly desirable that an effort be made on the part of all these groups to formulate means of arriving at material that will at once be comprehensive

and broad enough to cover the informational requirements of these groups and be of a scope and quality satisfactory to all. The Board would cooperate to the full in efforts to formulate and carry out such a study. The Board recognizes that such an undertaking would involve a considerable expenditure of time and money. To be worthwhile, such an undertaking would have to be comparable in breadth of coverage to the study of consumer instalment credit undertaken by the Board at the request of the President. As you know, this study required about 12 months' intensive efforts of part of the Board's comparatively small staff, plus the use of several outside survey and research organizations. As you further know, that study entailed direct costs approximating \$390,000.

The necessity for such a comprehensive undertaking has been highlighted by efforts in the past, both on our part and on the part of others, to obtain certain limited information by means readily at hand. Recently, for example, we developed what we believed to be revealing data on the trends in bank lending to businesses of various sizes from a quarterly survey on interest rates charged by banks on business loans. The information has been given to members of your staff. This material, while informative as far as it goes, is not sufficient to meet the basic needs which you, as well as we, have in mind.

The same inadequacy is true, unfortunately, for the type of information obtainable in a bank loan survey. Such a survey would be extremely complicated and time consuming, yet would add little to the data on bank financing of small business available from the existing quarterly survey and the regular call reports.

In view of the above, the Board has requested our Director of Research, Mr. Ralph A. Young, to deliver this letter to you personally and to discuss the matter with you.

Sincerely yours,

(SIGNED) WM. MCC. MARTIN, JR.

Wm. McC. Martin, Jr.

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SRC:cd