William McChesney Martin, Jr., Papers

Box 25/Folder 1

Series V, Subseries D

Hearings, November-December 1957

(37) ....House Select Committee on Small Business (Patman, Chairman) .... Financing Problems of Small Business 11/21/57

(Note: Presidents Hayes (New York), Leach (Richmond) Bryan (Atlanta), and Johns (St. Louis) testified before Committee on November 19.)

(37)

Miss Muehlhaus

November 25, 1957

The Honorable Abraham J. Multer,
House of Representatives,
Washington 25, D. C.

Dear Mr. Multer:

During my testimony on November 21, 1957 before the House Select Committee on Problems of Small Business Financing, you asked for copies of public speeches which I and each of the presidents of the Federal Reserve Banks have made since the first of the year.

Enclosed are copies of speeches which I made on March 12 and April 26. These were the only speeches for which there were prepared texts.

Also enclosed are copies of seven speeches made by presidents of Federal Reserve Banks. A list of these is also enclosed. Some of the presidents probably have made other speeches, copies of which we do not have in our files but which we will be glad to obtain for you if that is your desire.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

cc: Miss Muehlhaus
Mrs. Cotten

LIST OF SPEECHES MADE BY PRESIDENTS OF FEDERAL RESERVE BANKS
SINCE BEGINNING OF 1957

President	Bank	Date
Alfred Hayes	Federal Reserve Bank of New York	January 21, 1957
Alfred Hayes	Federal Reserve Bank of New York	October 16, 1957
Alfred H. Williams	Federal Reserve Bank of Philadelphia	May 23, 1957
Malcolm Bryan	Federal Reserve Bank of Atlanta	October 11, 1957
Carl E. Allen	Federal Reserve Bank of Chicago	January 21, 1957
Delos C. Johns	Federal Reserve Bank of St. Louis	April 24, 1957
Watrous H. Irons	Federal Reserve Bank of Dallas	January 28, 1957

This article is protected by copyright and has been removed.

Author:

Article Title: Martin Finds - Nothing to Get Excited About - In Economy

Journal Title: Dow Jones News wire

Date: November 21, 1957

This article is protected by copyright and has been removed.

Article Title: Anderson Says Discount Rate Cut Step in the Right Direction

Journal Title: Dow Jones News wire

Date: November 21, 1957

For release on delivery

Statement of

William McChesney Martin, Jr.,

Chairman, Board of Governors of the Federal Reserve System

before the

House Select Committee on Small Business

3 p.m.

November 21, 1957

SMALL BUSINESS FINANCING

The Federal Reserve System, with its interest in a financial organization and climate favorable to orderly economic growth and a stable dollar and with its particular responsibility for bank credit, necessarily has a concern about the availability of financing for business--both small and large business, new as well as established business.

This continuing interest in credit availability for business as a whole prompted us to initiate a comprehensive study of financing facilities for, and of the financing problems of, smaller business.

It is important to understand the nature of the Federal Reserve System's role and responsibility with respect to credit expansion, interest rates, and inflationary pressures. The Federal Reserve's responsibility is primarily for relating the availability of bank credit to the needs of sustainable growth of the economy. The aim of the Federal Reserve is to see that banks have, or can readily obtain, reserves that are adequate for these needs but not in excess of them.

Demands of borrowers and the credit standards of lenders determine through what channels credit is made available. Because banks have a responsibility to their depositors to repay deposits at face value on demand or on short notice, individual banks must maintain a high proportion of liquid, that is, short-term, assets. As a general practice, long-term loans and investments come from savings and not from commercial bank credit.

When demands for credit and capital are heavy and inflationary pressures exist, if the Federal Reserve were to attempt to supply credit directly to meet demands of a particular sector or type of business, without cutting down credit for other purposes, it would run the risk of supplying reserves to the banking system in larger amounts than would be appropriate for healthy and sustainable economic growth. It should be remembered that funds initially supplied for a specific purpose continue in the total credit stream after they are once spent and become available for other purposes.

The Federal Reserve does have a concern with the financial needs of particular sectors of the economy, including small businesses. However, the System's main concern in this respect relates to the question of whether the institutional arrangements of our credit structure are such as to produce an economic and equitable distribution of the available supply of savings and bank credit.

The Federal Reserve program of inquiry into this subject has been developed after extended discussion within the System and also with interested individuals and organizations in and outside of Government. The program divides into three parts.

In part one, we are taking stock of existing knowledge and information to see what light all of this material, when brought together systematically, throws on the small business financing problem. Our probing will deal with such subjects as the characteristics and role of small business in a dynamic economy; trends in the relative importance of such business; typical ways in which small business obtains its financing; risks and returns to lenders in small business financing; and Federal Government and regional programs for aiding such financing. Staff members of the Board of Governors and of the Federal Reserve Banks are making some of these studies. Others are being undertaken by university scholars. The National Bureau of Economic Research--a private, nonprofit research organization of national reputation--has agreed to cooperate with us in making the study of risks and returns in small business financing. The

Arthur D. Little Company of Boston, Massachusetts, one of the nation's leading industrial research firms, is examining management aspects of small business operations and their relation to success in obtaining outside financing.

The second part of the System's inquiry is an inventory of the financing facilities presently available in our economy for meeting small business credit and capital demands. Thus, it is involving an intensive survey of the financing techniques and credit terms of a variety of providers of funds to small business. These include the commercial banks, finance companies and factors, life insurance companies, investment bankers, and trade creditors. Questionnaires and field interviews are being relied on to develop pertinent information. The staffs of the Federal Reserve Banks are assuming the main responsibility for conducting this field survey study.

A special segment of this part of the research program is a national survey of business loans of commercial banks outstanding at mid-October, 1957. The System made a similar national survey in October 1955. Thus, a comparative picture of the lending activities of commercial banks for a recent period of strongly expanding credit demands will be provided. These surveys cover information on a number of characteristics of the loan and the borrower, including size and maturity of loan, size and industry of borrower, and the interest rate charged. In each survey, in the neighborhood of 2,000 commercial banks have provided data on roughly 200,000 individual loans.

The business loan survey is of special interest to this Committee and to the Small Business Administration and its planning has involved the cooperative participation of the staffs of your Committee and other committees of the Congress as well as that of the staffs of the Small Business Administration and other interested agencies of the Executive Department.

It is hoped that the major portion of the first two parts of our inquiry will be completed by early next spring. It is our plan to supply the research findings to your Committee as well as to other interested Congressional committees as soon as they become available.

Part three of this program of inquiry is a pioneering venture. It contemplates a national survey of the financing structure and needs of small business and would be done on a sample basis. The planning and conduct of such a direct survey involves many difficult sampling and reporting problems and feasibility of the survey hinges on their successful solution. The Board's staff is currently working on these problems with the help of the technical staffs of the Bureau of the Census, the Federal Trade Commission and the Securities and Exchange Commission, as well as the Bureau of the Budget. It is too early to say just when plans for the survey will be completed but the best judgment of our staff at this time is that planning and testing work will require at least a year. Nevertheless, this approach of going directly to the small businessman himself appears potentially so promising that the Board feels that work should go ahead on it even though it will take considerable time to plan and execute.

The information currently available on business financing is generally of an over-all character. We know, for example, that in recent years our economy has been characterized by high-level business activity and vigorous demands for credit and capital by business concerns. These demands plus those of individuals and governments have pressed hard against the supply of savings, and have resulted in higher interest rates. The funds made available by savings and bank credit have supplemented demands for goods and services made effective by high and rising incomes and by the use of previously accumulated cash balances. In this way, they have been a root cause of inflationary pressures.

Recently a table showing the changes in the volume of outstanding debt of the various types crossed my desk and I was struck by the very large growth in debt shown by most major categories. A copy of this table is attached.

The table shows that in the business field, concerns other than farms and financial enterprises increased their debt from $98 billion in mid-1951 to $119 billion in mid-1954, and to $156 billion in the middle of 1957. This translates into a 31 per cent increase from mid-1954 to mid-1957 and to a 59 per cent increase from mid-1951 to mid-1957. These changes compare with increases in total debt other than that of the Federal Government of 36 per cent since mid-1954 and 81 per cent since mid-1951.

Unfortunately, these figures are not available by size of business, but the Board's staff has made a rough breakdown of the data by corporate and noncorporate status. This breakdown shows quite similar percentage increases in debt for the corporate and noncorporate sectors over both periods. Since unincorporated businesses are typically small in size, the breakdown suggests that in recent years businesses of all size have been willing and able to expand their debt positions.

I was also impressed by other figures in this table, notably by the very sharp increase in home mortgage debt in recent years. The outstanding volume of this debt in mid-1957 totaled $94 billion. Home mortgage debt more than doubled from mid-1951 to mid-1957. Consumer credit has also increased rapidly over these years.

Reflection about the figures of debt increase shown by this table prompted me to request the Board's staff to prepare another which would show participation by commercial banks in the large private debt expansion of recent years. This table, also attached, covers changes in total assets, total deposits, total capital accounts and total loans of various classes of member banks from the end of 1951 and 1954 to mid-1957.

This second table shows that in the case of total assets, total deposits, and total capital accounts, the country banks, which individually are much smaller on average than the city banks, experienced since 1951 a greater relative growth than city banks. Also, the banks in reserve cities other than New York and Chicago experienced a greater relative growth for these items than did the very large banks in these big centers, which are known as central reserve cities. In the case of total loans, relative growth for the whole period from 1951 to mid-1957 was greater at country banks than at city banks, but for the period from 1954 to mid-1957 the reverse was the case. In both periods, however, the differences in loan growth by class of banks were rather small.

In general, city banks individually are large and country banks are small. While city banks make small as well as large loans, country banks, both because of their limited size and the legal limitations generally restricting the amount of individual loans to a per cent of capital and surplus, can make only relatively small loans. Many of these small loans of country banks go to consumers, home owners, and farmers, but many also go to small retail, service, construction, and manufacturing concerns in the local communities which the banks serve.

The slightly greater relative loan growth at the larger city banks since 1954 has undoubtedly been associated with more intensive demands for bank credit by larger companies. The economy has been undergoing a "capital goods boom," and capital goods industries as well as the industries requiring heavy capital investment are generally characterized by large-scale enterprises. It is to be expected, in such circumstances, that requirements for outside financing of large-scale enterprises should mount more rapidly than those of smaller scale enterprises.

Before leaving these banking data, you may wish to note the increase in bank capital during recent years. This increase in bank capital plus a favorable earnings position has provided a healthy strengthening of the equity base of our banks. A strong equity base for a private banking system is a prime requisite to the maintenance of effective bank credit services to growing communities. It is gratifying to observe that the banks are continuing to add to their capital strength.

The study which the System is making will, we trust, shed sufficient light on all aspects of the problems of small business financing to help all of us resolve many of the questions to which we do not now have adequate answers.

Net Domestic Debt

	Outstanding--midyear (In billions of dollars)			Percentage Change	
	1951	1954	1957	mid-1951-mid-1957	mid-1954-mid-1957
Domestic debt--government and private	427	505	601	41	19
Government debt					
Federal Government (net)	216	224	220	2	-2
State and local governments (net)	26	36	46	77	28
Private domestic debt					
Business (net)					
Nonfinancial business					
Nonfarm	98	119	156	59	31
Farm	10	13	15	50	15
Financial business	9	14	19	111	36
Individuals					
Mortgage debt	42	63	94	124	49
Consumer credit--total	21	30	42	100	40
Instalment	14	23	32	129	39
Noninstalment	7	8	10	43	25
Other debt of individuals	6	7	10	67	43

Note. Data may not add to totals because of rounding. The figures on total domestic debt represent, within the limits of statistical availability, all loans and debt securities. They exclude deposit liabilities of all kinds, currency liabilities, trade payables in the form of extensions of book credit to business firms, internal accruals such as tax liabilities, and insurance reserves. Figures on Federal debt exclude holdings of such debt by Federal Government corporations, agencies, or trust funds. Figures on State and local government debt exclude holdings of such debt by any State and local government agency. Financial business includes mainly banks, insurance companies, savings and loan associations, finance companies of various kinds, mortgage companies, security brokers and dealers, and investment companies.

Source. Board of Governors of the Federal Reserve System.

Selected Assets and Liabilities of All Member Banks, by Class of Bank, 1951, 1954 and mid-1957

Class of Bank	Dollar Amount (in millions) Dec. 31, 1951	Dec. 31, 1954	June 6, 1957	Change (in per cent) 1951-1957	1954-mid-1957
	Total Assets				
All member banks	153,439	172,242	176,507	+15.0	+ 2.5
All reserve city banks	97,090	107,878	108,105	+11.3	+ 0.2
Central reserve city banks	38,436	40,713	39,140	+ 1.8	- 3.9
Other reserve city banks	58,654	67,165	68,965	+17.6	+ 2.7
Country banks	56,349	64,364	68,404	+21.4	+ 6.3
	Total Deposits				
All member banks	141,015	157,252	157,593	+11.8	+ 0.2
All reserve city banks	88,727	97,893	95,402	+ 7.5	- 2.5
Central reserve city banks	34,261	36,097	33,606	- 1.9	- 6.9
Other reserve city banks	54,466	61,796	61,796	+13.5	0.0
Country banks	52,288	59,360	62,192	+18.9	+ 4.8
	Total Capital Accounts				
All member banks	10,218	12,210	14,058	+37.6	+15.1
All reserve city banks	6,459	7,703	8,754	+35.5	+13.6
Central reserve city banks	2,938	3,403	3,572	+21.6	+ 5.0
Other reserve city banks	3,521	4,300	5,182	+47.2	+20.5
Country banks	3,760	4,506	5,304	+41.1	+17.7
	Total Loans, Net				
All member banks	49,561	60,250	78,448	+58.3	+30.2
All reserve city banks	33,265	38,809	51,119	+53.7	+31.7
Central reserve city banks	13,614	14,823	19,684	+44.6	+32.8
Other reserve city banks	19,651	23,986	31,435	+60.0	+31.1
Country banks	16,296	21,442	27,330	+67.7	+27.5

Source. Board of Governors of the Federal Reserve System.

WRIGHT PATMAN, TEX., CH.

JOE L. EVINS, TENN.
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SELECT COMMITTEE ON SMALL BUSINESS
OF THE
HOUSE OF REPRESENTATIVES OF THE UNITED STATES
EIGHTY-FIFTH CONGRESS
WASHINGTON 25, D. C.

COMMITTEE ROOM:
129 HOUSE OFFICE BUILDING
NATIONAL 8-3120, EXT. 1846

BRYAN H. JACQUES
STAFF DIRECTOR

EVERETTE MACINTYRE
GENERAL COUNSEL

MRS. MARIE M. STEWART
CLERK

October 14, 1957

Hon. Wm. McChesney Martin, Jr.
Chairman, Board of Governors
of the Federal Reserve System
Washington 25, D. C.

Dear Mr. Martin:

Early this year the Select Committee on Small Business, House of Representatives of the United States, announced that it would study, investigate and hold hearings respecting the "Financing Problems of Small Business". The Committee has continued its study of the subject and is now planning to hold hearings regarding it during November 1957.

It is felt that you are in a position to assist the Committee considerably in its study of this problem. Much has been said and written detailing the views of small business and other segments of the American economy about difficulties faced by small and independent business concerns in their efforts to secure adequate financing. A number of legislative proposals have been advanced to meet the problems which are said to exist. Therefore, it would be appreciated if you would appear and testify before our Committee and present the factual information available to you and your views regarding what should be done about this problem. You are invited to appear and testify before the Select Committee on Small Business, House of Representatives of the United States, on the "Financing Problems of Small Business" in Room 1301, House Office Building, Washington, D. C., Thursday at 3:00 p.m., November 21, 1957. Will you kindly respond at your earliest convenience, advising the Committee whether that date is suitable for you.

Sincerely,

Wright Patman

Wright Patman
Chairman

Miss Muehlhaus

HEARING BEFORE HOUSE SELECT COMMITTEE
ON PROBLEMS OF SMALL BUSINESS FINANCING

November 21, 1957

Following is a digest of Chairman Martin's testimony at the afternoon session. He first read a prepared statement (copy attached) and Chairman Patman then began the questioning:

Q.* * * I want to ask you some questions about a plan I have that would directly affect the 12 Federal Reserve Banks. But in the beginning I want to ask you about the reduction of the discount rate. Last Thursday four of the Federal Reserve Banks announced a reduction of one-half of one per cent. Did you know these requests for reductions would come in before they came to the Board, Mr. Martin?

A. No, I did not know before they came to the Board, but I knew that there was something moving in that direction.

Q. You knew there was something cooking?

A. That is right.

Q. And that was all over, too, was it not?

A. Certainly. We operate as a system.

Q. Do you not anticipate that the others, the other seven, will come through soon? I understand Boston came through Monday.

A. They may. I understand that there has been one bank that has come through today.

Q. Is it not a fact, Mr. Martin, that the Board has quite a lever over these people by telling them if you want to, I do not say that you even have to do it or you would do it, but you can say: Now we have never arbitrarily raised this rate or lowered it ourselves, but we can do it unless you cooperate?

A. Mr. Patman, you and I have discussed that many times, that the authority resides in the Board, as I pointed out to you. It has not been our procedure to exercise it unless the Board felt that the situation was drastic enough to require something of that sort. It never has during the time I have been there.

Q. Using the language of the street, you could say that you have a club over them, that if you do not do this--I do not say that you have used it, but you actually in effect have that persuasion.

A. No, we do not put any club over these people.

Q. I do not say that. I say you do not have to. But if they were to refuse to come along, you could do that because the law says that the Federal Reserve Board has the power to determine this rate, that is correct, is it not?

A. That is the law.

Q. That is the law.

A. I will not quarrel with you about that.

Q. And in order to make sure that you can determine it frequently, the law is written so that they have to determine their rate every 14 days, do they not?

A. They come in every 14 days, correct.

Q. In other words, every 14 days you can raise it or lower it if you want to?

A. We pass on the rate that they submit to us.

Q. That is right, but in addition to that you can call upon them in between the 14 days for a new determination of the rate, can you not?

A. Oh, I presume we could, but we never have.

Q. So in effect although you have never had to do it, each bank knows that if they do not cooperate, the Board will go ahead and do it and will set a precedent which will probably be hurtful to them in the future, and they should not get into that embarrassing situation.

A. No, Mr. Patman. You and I have discussed this many times. There is no such implication in our relations with the 12 banks. There is no club and there is no misunderstanding about the fact that we are working as a system. We sit around the table just as you gentlemen are sitting around the table, and we try to evaluate the situation as best we can. If we do not have men in the system that have sufficient courage to stand up for their judgment, then the system is not worth anything anyhow.

Q. Well, of course I do not accuse you of using a club because you do not have to use a club.

A. No, I did not say you did, but I say this is a discussion we have had frequently before.

Q. That is right. But in a discussion you are well armed and they are not. In a discussion you see you have the power to do it and they do not have the power to do it.

A. That is what national policy requires, that the law is clear. But I have tried to point out that the whole background and purpose of the Federal Reserve has been to operate as a system.

Q. Yes.

A. And I think you have to bear that in mind when you approach decisions, as well as the letter of the law.

Q. That is right.

A. There is both the spirit and the letter of the law, and we are not dealing with something that is in absolute terms, that you just say boom boom boom. It is not that sort of a process.

Q. I hear what you say about acting in the system, but the truth is the Board has all power now, Mr. Martin, since the Act of 1935. We no longer have 12 banks that have power. That power is lodged in the Board. There is no important power, and I say this deliberately, there is no important power remaining in the respective banks, the 12 Federal Reserve Banks. We have discussed that a number of times, too, and I have asked you to name a power that remained with them that was important and I do not think you named them.

A. The discount window in each individual bank, Mr. Patman, is administered by the officers and directors of that bank. That is important.

Q. If I can take the time I am going to explain how insignificant that is, from your own reports, Mr. Martin.

A. We have been over it many times.

Q. Yes.

A. We disagree on that, but I really think that it is not a black and white case, but I think that the organization of the system, which is by no means perfect, is still a combination of a government of law and a government of men, and that we operate under the Federal Reserve Act, and the history and procedures which have been developed under that Act we are trying to administer consonant with the terms of the Federal Reserve Act. I think that you cannot say that this authority is exercised in this direction. Otherwise, you need to change the entire nature of the system.

Q. Of course my reply is, Mr. Martin, that we are dealing with two periods in our monetary history, one period from 1913 to 1935 when we had 12 banks and each bank was autonomous. It could do things itself. But since 1935 we have had a central bank. Now I am not opposed to a central bank. I am not criticizing a central bank. I think a central bank is a good thing, but we might just as well be frank about it, and say that the Board had all authority along with the open market committee composed of

12 members, of course seven members of the Board and five presidents of the Federal Reserve banks. The open market committee I think is the most powerful committee on earth that has ever been organized. Now the rate of 3-1/2 per cent down to 3, that will not really do much good in the way of stimulating growth in our economy, will it, Mr. Martin?

A. Mr. Patman, I do not want to amplify on the action of the Board of Governors and the banks. I think that the public and everyone, we gave them a perfectly straightforward, clear signal that we saw some change in the business situation.

Q. In other words, you are announcing just like when you raise the rate, it is more psychological than real, that you are just announcing that we are going to have a little harder or tighter money, is that not it, Mr. Martin?

A. It is not that simple. Your judgments in this field, Mr. Patman, have to recognize that it is business conditions that you are dealing with. We do not make the business conditions. We may influence them to the best of our ability, but our decision has to be based on an objective analysis, and all that was done in the lowering of the discount rate was to make a clear, unequivocal decision that everybody could see that we realized there was some change in the business situation, and that in order to fight both inflation and deflation, we thought it was appropriate to take some action.

Q. I commend you for the action. I know you had something to do with it, at least by telephone conversation. Mr. Hayes said that such action was usually accompanied by other actions to implement it. In other words, that vehicle alone was not sufficient to get the job done, but it took other actions. Do you contemplate something else being done, Mr. Martin?

A. I do not have any comment to make on whether anything else will or will not be done. Business conditions are what determine our course.

Q. All right, I will accept that answer. I know you would not like to state if you had anything in mind.

A. What we are doing, Mr. Patman, it seems to us that it was appropriate to take this action, and our actions are designed to be as helpful as we can be to growth and stability in the economy.

Q. That is right.

A. That is our objective and that is our purpose.

Q. All right. I think it was a good action. Now then, I want to invite your attention to the fact--and I hope the members will listen to this; I think it is something that will come up year after year--when you were making money harder and tighter in 1953, you did it by raising the rediscount rate every time. That meant an automatic and arbitrary increase in all interest rates clear across the board. Now, you had another weapon that you could have used. You could have increased reserve requirements. I know that that would have caused interest rates to increase, but it would not have been a quick arbitrary increase clear across the board. The one, as I interpret it, was guaranteeing to all lenders of money an immediate increase in their interest rates; I mean an incrsase in reserve requirements would not necessarily give money lenders an immediate increase. Why was it that you used that method in going up high, but when you got so high you had to go down, then instead of reducing reserve requirements, you reduced--you might have reduced reserve requirements but you also reduced--I mean reduced the discount rates--you reduced reserve requirements which gave them free money, free reserves, upon which they could expand 6 to 1 at a minimum.

A. I do not know what period you are referring to now.

Q. 1953-1954. In other words, specifically, May 11, 1953, up to that date you were awfully hard, I thought, very hard.

A. That again is a matter of judgment. We are always trying to adapt our actions and our policies to business conditions. There are always judgments involved in these things. In my judgment, you would have had a much higher interest rate pattern if we had used the reserve requirement method to push up instead of the method that we pursued. But these things are always discussed and carefully thought through. I do not believe that it is a fluid operation; and under different conditions and different circumstances, you use different weapons and different techniques. That is what we are dealing with.

Q. But Mr. Martin, you used the only weapon that would guarantee the lender a big profit each time.

A. That just is not so, Mr. Patman.

Q. I do not say it was deliberate.

A. No, it is not a case of--I am just disagreeing with you on judgment. Now, my judgment could be wrong on this and yours might be right, but I do not think so. I think that the lender would have done better by the reserve requirement method than he did by the discount method. That is judgment technique and evaluation of the business conditions which are changing from week to week and month to month, and our policy has to be and always must be flexible. We have got to fight both inflation and deflation.

Q. Instead of just using one weapon, which you did, which was a guarantee to money lenders that they would not get an immediate quick increase in their interest rates, you could have used the other two weapons, too, along with them and coordinated them.

A. As you pointed out, over a period of years we have used them all.

Q. Yes, you have used them all. But I am talking about since 1953. What I am getting to, Mr. Martin, I just wonder, since you used the discount rate in order to harden money up to March 11, 1953, but then you used a reduction in reserve requirements to ease money to go back up, I wonder now, since you have used the discount rate to make it hard again, that in going down you are going to use reserve requirements to give the banks more free reserves again? In other words, give them a free ride both ways, going up and coming down.

A. Whatever we do, Mr. Patman, we are going to conduct the policy to contribute, in our judgment, in the greatest way that we can to growth and stability in the economy. That is the objective and that is what we are trying to do and that is the way we are going to use these instruments.

Q. That is right. I agree that that should be your object, and I am in accord with what you say is the purpose of your actions. But do you not think that we are in a recession now?

A. I have already pointed out to you, Mr. Patman, the action that the Board took. I see nothing to get excited about in the picture. We are going right along our course trying to adapt our actions, as I repeatedly told you we would. We would be flexible at all times. We are trying to adapt our actions to fight both inflation and deflation. I cannot make a judgment, I cannot forecast what the economy is going to do.

Q. No.

A. I wish I were that smart, but I am not.

Q. But if you have two weapons and one will unduly profit the lenders, I feel strongly that you should not use it every time, that you should use the other weapon sometime, and in going down like you gentlemen are now, obviously going down, if you reduce reserve requirements, you will corroborate what I have said.

A. Well now, you and I are always very good natured about this.

Q. Yes, sir.

A. That is one of the reasons I enjoy discussing it. But we just have a little difference of judgment as to what happens.

Q. That is right.

A. In the use of these.

Q. But you are going to do what is necessary to keep this situation going? In other words, you are not going to permit money to get tighter or harder?

A. We are going to adjust in the way that we think is the most satisfactory to produce the maximum growth and stability in the economy.

Q. And if you think there is further easing to be done, you will do one of three things: You will either reduce the discount rate more or you will reduce reserve requirements or you will go into the market and buy Government bonds?

A. Now, Mr. Patman, you know the Federal Reserve Act and you know the instruments that we have, and we are going to look at business conditions all the time and determine what is the best approach to take to this problem.

Q. Mr. Martin, I want to urge you to consider the fact that there are more vancancies in the stores in the little towns of America, I believe, than ever before in the history of our country. I believe that. And I believe that the failures among small businessmen are greater than at any time since 1933. The statistics show that. And I believe that we are in a recession, a serious recession, and I want to urge you to do something about it and do it quickly, because, as you have often explained and as Mr. Humphrey has said, the Secretary of the Treasury, as Mr. Eccles, your predecessor has said many times, you can pull a string but you cannot push it. You can stop inflation, you have weapons at your command to stop inflation, but you do not have any weapon at your command to stop deflation. So therefore I want to urge you to view this situation in the light of what is actually happening in the United States of America, the serious situation that is going on--the home builders, small business, agriculture, unemployment going up, more critical areas than before. I just hope that you take positive action, definite and quick action, that will restore things before it goes so low that you cannot restore it.

A. Mr. Patman, all I can say is that we are going to exercise the best judgment that we have. I do not know what we will do, but --

Q. In the light of the facts, I am sure that you will act, and I am sure that your judgment will be honest. I have never impugned your motives, and I have no intention of doing so. I know that you are acting honestly in what you believe is the best thing to do. I have always said that, and I honestly believe it. Now, I want to ask you about a proposal that will really help small business. There are 4 million small businesses in this country. They are going broke. They are just popping like firecrackers all over the nation all the time. But you never hear of any big business going broke because the big businesses are pretty well fortified. They can have administered prices, they can have a lot of things, and they are pretty well insulated against danger or trouble. They are in a stormproof cellar with all the modern conveniences. But the little fellow is in danger. We want to do something for this little man.

A. Mr. Patman, may I just interject and then I will not any more because you are very graphic in your descriptions and you are very persuasive, but there are also an awful lot of little businesses that are doing pretty well, even at the moment.

Q. Yes, there are some. But out of 4 million, you would expect some of them to do well.

A. Statistically, I just wanted to put it in the perspective.

Q. There are only 10 per cent that are --

A. We cannot quarrel about statistics, but I do not think they are just popping like firecrackers all around the country.

* * * * *

Patman then outlined the capital bank proposal to furnish equity capital to small business---taking $10,000,000 of the capital and surplus of each Reserve Bank to set up the capital banks.

Q. *** Now, the point is this $10 million--did you read the testimony of Mr. Hayes and the other presidents of these banks before our committee on Monday, Mr. Martin?

A. No, I did not.

Q. Do you know what it is?

A. No, I have not read it since.

Q. Well, I have news for you. They did not oppose it too much. And each one of them said that they could put up the $10 million rather easily and it would not be any trouble if Congress said so, of course. They did not seem to resist it too much. Now, since we need capital and we have got to have capital, and this money in the Federal Reserve Banks, in each Federal Reserve Bank is idle money, it is unused money--the aggregate amount of it is over $745 million under Section 7 and about $27 million under Section 13(b), which you will not repeal, and then about $108 million under another section. But you have over $750 million as reserves in these 12 Federal Reserve Banks, money that is actual money, it is not any phoney money, it is actual money. It is in a reserve fund. It is not needed now. It has never been needed in the past, and I say that there is no prospect of its use in the future. Certainly $10 million or $120 million aggregate would not be too much to take from that fund. Do you see any reason why that should not be considered, Mr. Martin?

A. I do not see any reason why it should not be considered, Mr. Patman. The Board of Governors has not recently considered this proposal, but I did appear--Mr. Young and I went over this before we came up here on the 20th of June--before the Senate Banking and Currency Committee--and I would just like to insert in the record, if I could, what we said at that time.

Q. Yes, I have it here, and it is not very good for me.

A. I was afraid you would not think it was very good, but that was the position of the Board at that time.

* * * * *

Q. (by Mr. Seely-Brown) Do you feel it might or might not be proper to dip into that fund and use some of that surplus for other purposes?

A. Well, I think it starts a precedent, Mr. Seely-Brown, that is perhaps dangerous. Now I would have to be completely honest with you and say that if you took a very small amount of it, that the world would not come to an end by it, and that you could offset it in open market operations so far as credit policy is concerned. But I still think it is the principle that you have got to be pretty careful about, and it is also something that has got to be weighed in terms of the future, the perspective.

Q. It is an important safety valve.

A. It is, indeed. That is exactly the point.

Q. And it does serve a useful purpose in your opinion as being a very real safety valve which we must be careful when we let some of the steam out that we do not blow the --

A. That is correct.

* * * * *

There followed some discussion of the few times in the past when the surplus was drawn upon.

Q. (by Mr. Yates). Mr. Chairman, I do not understand one point. Mr. Martin said that the funds were used in the 20's for the purpose of paying administrative expenses. Mr. Brown then asked him whether if it had not been used for that purpose he would have then gone to the Congress for money. His answer was yes. Then you said well, couldn't he have used the open market procedure to go out and get the money? *** But how could he have gone out and bought 10 million dollars worth of bonds if he did not have money to pay administrative expenses?

A. (By Mr. Patman). On the credit of the nation, to operate on the system. Trade them for a million dollars worth of government bonds and keep the bonds and collect the interest every year. That is what the whole Federal Reserve System has been doing all the time.

Q. Bank notes to pay their expenses?

A. Sure, from the Bureau of Engraving and Printing.

Q. Is that your answer too, Mr. Martin?

A. (By Mr. Martin). That would certainly not encourage confidence in the currency.

Q. Is that a procedure it could have followed?

A. It could have if it completely abrogated its responsibilities and charter which is not to make money but is to operate in the interests of the economy.

Q. (By Mr. Patman). I say it was possible, Mr. Martin.

A. It was possible if the management of the Federal Reserve System decided they would not follow the Federal Reserve Act and they were going to speculate in securities on the credit of the government, I do not think that he would last very long.

* * * * *

Then came discussion of the stock of Federal Reserve Banks.

Q. And I know a lot of bankers are always saying that the Federal Reserve has used our reserve funds to buy Government bonds, and we ought to have a part of that. Is it not a fact that you do not use the banks' reserve funds for any purpose? I am talking about the commercial banks.

A. That is correct.

Q. And it has got to be correct because if they did not have the reserve funds in your Federal Reserve banks, they would have to have them in their own vaults, would they not?

A. That is right.

Q. So they are just permitted to transfer to the Federal Reserve Bank money that they would normally have to keep in their own vaults. Therefore, they are not entitled to have that money do double duty. And buy Government bonds with it. Is it not a fact that the only way that you accumulated these government securities, about 25 billion dollars worth, is by the use of the government's credit?

A. Credit plays a major part in it.

Q. Major? It plays all the part.

A. Again you have to relate it to the capital and surplus and the participation of the capital and surplus of the banking system in this operation. All of these are relationships.

* * * * *

Q. (By Mr. Evins). Not being a member of the Banking Committee, Mr. Martin, we don't get an opportunity to hear you often. I would say that you are one of the nation's recognized outstanding financial minds, so recognized as bordering on genius by your reputation. But you will have to admit that the Chairman here, who has just been questioning you, is bordering on that same situation, would you not?

A. Mr. Patman and I will salute each other.

Q. What was the primary consideration which prompted the reducing of the rediscount rate by the Board?

A. I can only repeat what I said earlier, Mr. Evins. The Federal Reserve Board gave a clear signal that, in their judgment, there was some change in the business situation, and that in order to fight both inflation and deflation, some adjustment was required.

Q. That was the impression that I gained. You used the words repeatedly that business was, in effect, dictating the policy decisions that are being made.

A. We are always concerned with business. That is our purpose, to have as much growth and stability in business as we possibly can, to have a higher standard of living.

Q. Wouldn't the broad interpretation of your powers under the Act be the well-being of all the citizens of the country, not just the question that business is dictating the policies of the present Administration?

A. Business is not dictating here. Business conditions. We are trying to make evaluations, Mr. Evins. That is the best we can do.

Q. I didn't hear you in your testimony say the general welfare or the public welfare or the public interest. You repeatedly referred to business conditions, to business.

A. I certainly assumed that in our work we are concerned with that, or we wouldn't have a Federal Reserve Act otherwise.

Q. Certainly business is important, and we are all concerned with it, and it is very vital to our country, but there are other elements that I think the Board might well consider in making some of its decisions, and not that decisions would be prompted singly and solely by business.

A. We are talking about the economy here. Maybe you are using the word "business" in relation to specific businesses. I am talking about the broad economy.

Q. I like that use of the word. Now, you denied earlier any use of powers or clubs, and so forth, but still you continually used the words "weapons that we have." That is just tweedledee and tweedledum, different words for the same thing. You do have these weapons, and you use them. Then you referred to maximum growth. To whom do you mean to imply the maximum growth--business, banks, or the country generally?

A. The country generally.

Q. I like the emphasis on that, because I think these statistics here have shown that the maximum growth has been for the banks under these operations that have taken place in the last few years.

A. I disagree with you, Mr. Evins.

Q. I respectfully disagree, too, if you say that other segments of our economy have grown in the same proportion as big business has during the past five years. We know that the farm conditions of this country are not in a period of great prosperity. Many are leaving the farms. We know that small business is not prospering in our country at this time. There are many closings. If you visit the small towns rather than Wall Street, you will see many vacant buildings today, so while we are interested in business prospering, I think there are some other segments of our economy that are not prospering. The Agricultural Committee, this committee, and others are aware of that fact. I think the country is beginning to feel that while big business is prospering under some of the operations that are going on, that other segments of our economy are not. I wanted to suggest that maybe it might be wise for the Board to give a little more thought to the over-all well-being of all segments of our economy, rather than leaving the impression that business is the thing that prompts the decision.

A. I want to correct that, if I gave that impression. We are talking about the over-all economy, the welfare of the over-all economy. I am very glad you corrected that impression, if I gave it.

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Q.(By Mr. Yates). I want to thank my colleague very much for yielding to me. Mr. Martin, when the four presidents of the Federal Reserve Banks were before this subcommittee a few days ago, they emphasized the fact that between August and October there was a drastic sliding in business conditions, or in the economic indicators rather, which persuaded them that they should change their mind on the rediscount rate, and that the rediscount rate should be reduced. They later amended that statement to say that in November this was emphasized. I wonder why you disagreed with them, and I asked them whether they disagreed with you when, on November 6th, you made a speech which at least I interpreted to mean that the inflationary trend was still as strong as ever. Did I misconstrue your speech?

A. I think you did, Mr. Yates. It is very difficult when you are talking on these subjects to have everybody get the same impression from what you say, but we are dealing with inflation and deflation, and I have consistently, before this committee, not this committee, but in my appearances before the Congress, pointed out that once inflation gets ahead of you, you have a difficult process of unraveling it. I don't think we have licked either inflation or deflation yet. I think we have got to be aware of both forces, and we have got to do everything in our power to maintain, I have said facetiously a number of times, "flation."

Q. We are both for "flation" and opposed to inflation and deflation.

A. That's right, but this is a business process you see. You have to adjust.

Q. Perhaps my misconception came from having read the U. S. News and World Report.

A. I have read that report, and if you read it very carefully, I don't think I am misquoted in there, but I am emphasizing business principles. I am not talking about per se. I think their headline is a little bit misleading.

Q. Their headline says, "The Latest Word on Why Money Stays Tight" -- and refers to Mr. Martin, who defends the current policy of tight money -- "Offers No Promise That It Will Be Eased Right Away." That was one of the reasons perhaps that I was led to my construction that you were still insisting on the fact that the inflationary trends were still as powerful as ever. Now I notice that in the course of your speech you stated:

"I also want to make it clear if you think there is any magic in the Federal Reserve, that when business reaches a certain level and it starts to decline a little bit, that we can just step, stop it there, I think you misunderstand the workings of our operations."

If you don't do it, who does it?

A. Mr. Yates, I wish it were possible to tell you or the public that there is any power that can just pull a lever and adjust the business.

Q. You mean pull a string.

A. Yes. If we had found any such power, I can assure you there would never have been any business decline of any sort in this country, that long ago we would have just been sitting there pushing the buttons and the levers, and it would have been just a degree of how far up it went. All I was trying to talk about was the general principles there. If you will read that, you will see I stressed waste, extravagance, incompetence, inefficiency, all the items that enter into business decisions and business interrelationships. I think that we ought to do everything within our power to have as orderly growth and stability in this country as we can, but we ought not to try to mislead anyone to think that the Federal Reserve can pick up the check for them, if they make mistakes or miscalculations or markets or that adjustments can take place by the Government.

Q. All right, assuming that that is true, the Federal Reserve cannot, by merely pulling a lever or altering the discount rate or using the other financial tools at its disposal, continue with this broad plane of prosperity ad infinitim. Who else is there in the Government, or what other agency is there, that should be assisting you in your task, and was that done in trying to maintain this level? You try to stop an inflationary trend by increasing the rediscount rate. Are there other things that should have been done were not done?

A. All agencies of the Government under the Employment Act should use their best efforts to have maximum production, maximum employment and maximum purchasing power. Now that is the frame of reference under which all of us operate.

Q. That is correct.

A. There may be varying judgments at times as to what ought or ought not to be done, but that is what we are trying to do. That is our objective.

That is our purpose. Now I pointed out repeatedly that the alternative to widespread unemployment is not necessarily continuous inflation, continuous deflation. This is a process. And I think we have got to adjust our activities, but we cannot guarantee to anybody that we can --

Q. I didn't ask you that, Mr. Martin.

A. I am sorry.

Q. What I asked you was this. You said it is the responsibility of all other agencies to do this under the employment act. I had hoped that I might get a specific response to the question by saying what agencies had tools available as, for example, you might have used the open market policy more than you did, perhaps you might have used that, going back to Regulation X or Regulation W in addition to this. Are there other agencies of the Government that could have used some of their tools as well that they didn't use in trying to check inflation?

A. Well, you have got the Budget Bureau, the budget problem, the United States Treasury has the debt management problem. This broad problem requires fiscal policy and debt management policy and monetary policy at all times.

Q. Were these being exercised?

A. In varying degree, yes.

Q. Do you feel they were successful in checking the inflationary trend?

A. I have obviously said that they weren't, because I said inflation got ahead of us in the last few years.

Q. Is it still ahead of us?

A. I don't know. I am not making a judgment on where we are in the economy. I think that there was a release by the Commerce Department that I just happened to notice on the way down, that said that inflation cost us $13 billion this year.

Q. Mr. Martin, I thought that your board had concluded that inflation was not still ahead of you when it came to the conclusion that it should vary its rediscount rate. Now you say you don't know. Does this mean you don't agree with the action of your board?

A. Now let me try to make this clear, because I think this is very important. The board, in making its signal, stated that at the moment inflationary pressures were abating. Now that is at the moment. This is a time element. That doesn't say they won't recur again, that doesn't say that deflation is the order of the day. That is the best I can do with that, because I think you can see what I am driving at there.

Q. I am afraid I can, because after all, all decisions are made on a momentary basis, are they not? Next month, for example, you may decide the inflationary trends are back again, or you may decide that the inflationary trends have been completely dissipated, and that you face a deflationary trend. As a matter of fact, Mr. Hayes, in response to a question I asked, thought we were in an extremely critical period at the moment, and we would either move further into an inflationary period or move forward. Do you agree with Mr. Hayes' conclusion?

A. I don't know what Mr. Hayes said, and I am not going to interpret what he said. I am not going to make any comment, prediction on the business future.

Q. Do you agree with the action taken by the Federal Reserve Board?

A. We wouldn't have taken it if I didn't. I don't say "I." Let's put it this way. I voted for it. The Federal Reserve Board has to approve the action, and all I was trying to say there was not that I did it.

Q. I must confess the first impression I had was that if you didn't want it to be so, the Board wouldn't have voted it.

A. Not necessarily. I am one man of a seven-man board, and the board could outvote me at any time. One of the safeguards and one of the wise things I think in this system is that whether it is Mr. Martin or Mr. Hayes or any of the presidents you had up here --

Q. I note in a newspaper item that the President, Mr. Anderson, Mr. Hauge, Mr. Sonne and yourself met at the White House on November 12. Is there any relationship between that meeting and the change of rate?

A. Get the chronology on this, Mr. Yates. Let me tell you about that committee. That is not a decision-making committee. That committee is for interchange of information between the various people interested in the economy. There is no agenda, no decision is reached. The Federal Reserve System, the 12 bank presidents and the Board of Governors met on the morning of November the 12th, and they reviewed all aspects of this problem, and I conveyed to this meeting the sense of that particular meeting. Now the action that was taken by the Federal Reserve was taken by the Federal Reserve on the basis of its judgment. That meeting at the White House was a meeting for interchange of information, and I found these meetings extremely helpful and extremely valuable, because it gives a place where we can exchange ideas and views.

Q. (by Mr. Patman). This is right in connection with that. Isn't it a fact that this is the first time there has ever been an over-all coordinating committee on which was the chairman of the Federal Reserve Board, the Secretary of the Treasury, and the President of the United States, the first time that ever happened, isn't it, Mr. Martin?

A. To my knowledge it is, and I think it is a very desirable development.

Q. I think it is wonderful. I think it is fine.

A. I want to make clear though, Mr. Patman, that before the establishment of this committee, which was on the suggestion of Secretary Anderson, I think a very wise suggestion, that I broke my neck to try to keep all these people informed.

Q. You only had two meetings, didn't you?

A. Of this committee.

Q. One each month for two months.

A. That's right. It is a new operation.

Q. (by Mr. Yates). Is the information which is developed at the meetings of this type transferred to the board room? Do you tell the board what occurs?

A. I do not.

Q. (by Mr. Seely-Brown). Mr. Martin, isn't it true that in the establishment of the entire Federal Reserve System, when that system was created every effort was made to give you a degree of independence, which is quite different from the lack of independence, if you will, that many of the agencies in the executive department have.

A. That is correct.

Q. In other words, every effort was made to remove, as far as possible, the entire Board from political pressures and pressures of that nature. Your job is primarily to aid the growth and stability of our country. In view of the fact that you have, if you will, a control of the entire monetary system under which we operate, as you aid the growth and stability of our country, you are actually aiding the growth and, if you will, the individual stability of every individual person in our country, whether he is a businessman, doctor, lawyer, or professional man, in any capacity whatsoever.

A. That is correct.

Q. I think we should emphasize that, as any bank does in any community. It is not only a business venture in one sense, but it is a very stable influence in our entire economy, which makes our growth and expansion possible. Is it not also true that you are, in a way, a doctor, and you have to check the patient every day and every fourteen days. Sometimes the patient develops a temperature, and you give him a certain kind of a pill. At certain times a patient may show other symptoms, and you use another pill. As any doctor, you have to use your best judgment on the basis of the best information that is available to you, is that not so?

A. That is correct.

Q. And your action the other day was because you felt that the patient, at this moment, needed a certain kind of a pill.

A. That is correct.

Q. By the same token you are not sure what the patient's position is going to be, or you are not even sure how he is going to react to that pill?

A. That is correct.

Q. I am sure your pill box has other medicine available, if other medicine is necessary. I think that is important that we bring that out. By the same token, don't you also agree, sir, that sometimes you can talk yourself into trouble by hammering away at this fear of things to come, is that not so, from your own broad experience in any financial matters?

A. It is, indeed, and I hope you won't mind, Mr. Patman, my saying that is why I pointed out that firecracker illustration on the popping of small business.

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Q. (by Mr. Multer). * * * The other day when Mr. Hayes, the President of the New York Federal Reserve Bank, was here, I asked him some questions, and one of the newspapers said that I charged the cut in the discount rate was intended to put the banks in a position to take up the country's treasury financing. Mr. Hayes said that is not so. I wasn't trying to make any charge. I was trying to pay a compliment to the Treasury Department and the Federal Reserve Board for having gotten together and done something constructive to bring down the cost of financing to the United States Government. Isn't that one of the effects of your reduction in the rediscount rate? That it became cheaper to sell those notes and certificates that were then issued, after the cut in the rediscount rate.

A. You probably have seen what transpired in the Government securities market.

Q. The fact is that that financing by the United States Government was at a lower rate than the last financing.

A. That is correct.

Q. Now in all fairness, was that not one of the things that was considered in your conferences, in your board meetings, and in your meetings with the Treasury Department?

A, We always, Mr. Multer, as I have repeatedly pointed out, considered the needs and the requirements of the Treasury. I would like to point out that was not a controlling consideration in this instance.

Q. I think the point has been made, possibly overstressed, that increases in the rediscount rate over the last two or three years were mainly anti-inflationary. Now if it was intended to be that way, then it should have been cut down on the amount of borrowing from the banks, isn't that right?

A. No, Mr. Multer, that is this problem of the demand for credit. Rising interest rates are not a sign of bad business. They are a response to an efficiency of savings against the demand for long-term credit. We found a situation about a year ago, when we were discussing this, where short-term bank capital was being used in many instances for long-term purposes, and I think against a demand of that sort, it's only natural that interest rates rise. Now the idea that so many people have that the Federal Reserve, by just pushing a button can up the interest rate or lower it, is not so. It may be one of the influencing factors in the economy, but it always has to be weighted against the demand for credit. You can make money so easy that it is running out of everybody's ears, and that doesn't mean that people want to borrow it unless they can see an opportunity to make a profit on it. And you can likewise have interest rates going up and people need money for opportunities that they see, and they are willing to pay the higher rates. Now money is like any other commodity in that sense, and unless you permit it to adjust itself around the forces of supply and demand, you are, in my judgment, needlessly stifling one of the important governors that we have in our business mechanism.

Q. And I suppose you agree with the banker who is quoted in the newspapers when he said that a cut in the rediscount rate will not cause his bank or any other bank to cut the interest rate to their customers?

A. That is a decision for him to make. I won't make any comment on his statement. That will have to be related to his situation.

Q. That would put his bank and every other bank, if it follows that procedure, in the position of making that much more profit for their bank because of the cut in the rediscount rate.

A. I don't think that is logical, Mr. Multer. I don't see why a change in the discount rate is going to affect that banker, as you quote him, one way or the other. He has to determine supply and demand for credit and what he is going to charge for it.

* * * * *

Q. I may be mistaken, but I thought throughout most of the Banking and Currency Committee hearings, we had been told repeatedly the reason for raising the rediscount rate was to stem the demand for loans. Whether we were told that or not, the fact is I think we have agreed that there has been no decrease in the amount of borrowing, as each time you raise the rediscount rate.

A. The demand for credit has been very strong. If the discount rate had not been permitted to move, it would have been even stronger, in my judgment. You are talking now about levels.

Q. Is it anticipated that with the decrease in the rediscount rate, there will be any lesser demand for money?

A. I won't make any comment on the course of future events. I am not going to forecast business or business loans. I am not prepared to do that. I don't know what the course is going to be, but we are going to be alert and alive to it, and watch it as carefully as we can.

Q. Have you consulted or was the Board consulted in connection with the last FNMA offering of bonds at four and seven-eighths per cent.

A. The Board always--not the Board as a whole but I always--consult with the Treasury on all of their problems and give them the best advice that I can at any time. But it is their responsibility and it is their judgment that controls. We do everything--

Q. If the rediscount rate had been lowered prior to that offering on November 8th, that offering would be a lot less than four and seven-eighths per cent, would it not?

A. It might or might not. You have to evaluate conditions at any given point, and as I said, we always take into consideration the needs and requirements of the Treasury, but that is not our controlling reason, and we are not there to set any specific rate at any time to make it either easier for the Treasury to borrow or more difficult for the Treasury to borrow. Our objective is growth and stability in the economy.

Q. The chronology, as I remember it, is something as follows: On November 12th there was this conference, a meeting of the over-all Committee. On the same day there was a postponement of the proposed Treasury financing. On November 14th there was the lowering of the rediscount rate following with the Treasury financing. Is that the time sequence?

A. The chronology there, Mr. Multer, was that the Federal Reserve had a meeting in the morning of the 12th. I informed the Secretary of the Treasury, as I always do, of the various viewpoints expressed, and of the situation that was developing, and he had to make up his mind as to when and how he wanted to make his offer. He decided, and I think quite wisely, to give everybody a clean sheet with respect to the offering.

Q. And he then postponed his offering?

A. Well, in the light of the action that we took, he thought it might be desirable for everybody from one end of the country to the other to have an opportunity to know it. This was so that all of the cards would be on the table, and I think a very correct procedure.

Q. That brings me to another point. You emphasize the national interest and giving everybody the opportunity from one end of the country to the other. When the members of the four Federal Reserve banks were before this committee, they too agreed that the national interest rather than sectional interest is paramount. The statute in so many words requires that your Board administer your affairs fairly and impartially and without discrimination in favor of or against any member bank or banks. Yet we have a difference in rediscount rate in the four districts, and then the fifth district, and now you indicate the sixth district, and there are still six districts at the higher rate. Where is the impartial administration?

A. Mr. Multer, we have been over that many times. If you want to have one central person, if you want to give me the authority to just set it all over the country, why that is an entirely different concept than we operate under today. We have regional differences. We have different conditions in different localities. There is no discrimination involved in differences in judgment.

Q. I will agree with you that there may be occasions when there is a reason why the rates should be different in one locality than in another. But when the agreement is that there is no reason for such difference, that everything is the same, that conditions are the same throughout the country from one end to the other, and when the statute imposes on the Board the duty to do that, I don't see why you get the right, except in an emergency, to have different rates in different parts of the country.

A. All I can say there, and I say this in a friendly spirit that you always engage in in this, that if you were a member of the Board and had our discussion, you might not take that view. That is just a matter of judgment that is within our prerogative to determine. If we agreed with you on that, why we might have exercised the authority.

Q. You do have the authority to--

A. I might point out I have just gotten a note Kansas City, Minneapolis, and Philadelphia did reduce today.

Q. Let's get that. I was just about to say--correct me if I am wrong--that the Board of Governors is the one that fixes the rediscount rate. The Federal Reserve Bank in any district may recommend it.

A. That's right.

* * * * *

Q. I suppose that also brings into play the discussions you and I have had so often about central reserve cities and reserve cities.

A. It does indeed.

Q. Mr. Patman has just very pointedly shown how, in your California District, they made close to $11 million, the Federal Reserve Bank, in one year, last year. New York only made thirteen. Why this distinction as to reserve requirements between the two districts?

A. I have nothing to add to what I have repeatedly said, Mr. Multer, that we are constantly studying this reserve requirement problem.

Q. May I goodnaturedly say please stop studying this to death.

A. You have goodnaturedly said that many times.

* * * * *

Then came more discussion of government bond prices, and Mr. Multer continued:

Q. My thinking is somebody has had a windfall.

A. A good many people had the reverse of a windfall over a period of time also. This is not a one-way street. This is a marketable thing. These are marketable securities.

Q. I have in mind those who I understand did a lot of buying and selling of bonds the very day you made your announcement.

A. All I can say, Mr. Multer, I haven't followed the market very carefully, but I know of no leak on our action. I think that the action was made in a perfectly straight-forward way, and that there was no leak so far as I know any place in the country. There were people that may have guessed or may have had ideas or one thing and another, but there was no leak on our action at all, and I am rather proud of that.

Q. I am making no accusation.

A. No, no, I didn't mean that you were. I just wanted to make that point clear, because adjustments in the market, I think it is very important that--

Q. There was a lot of activity that afternoon, certainly in the New York Market, in the New York Bond Market. It started very weak in the morning and wound up in the evening very strong. There was a lot of buying after market hours.

A. The announcement came out I think at 4:30. That is my understanding.

Q. The New York Market closes at 3:30.

A. 3:30, that's right.

Q. The San Francisco Market was not closed until much later New York Time. Does the Federal Reserve Board receive and keep a fairly accurate record of the sales and purchases of government bonds? Do you have daily reports on that?

A. Our open market account--our desk in New York keeps a record of their transactions, of course, and keeps a board on which quotations are posted, based on the latest in the street. I believe some of your men, Mr. Patman, had an opportunity to visit there.

* * * * *

Q. Just one other thing, Mr. Martin. Does the Federal Reserve Board keep a file of the speeches which you and the presidents of the various banks make, public speeches you make from time to time?

A. I am afraid they do, Mr. Multer.

Q. I would like to have, if you will, sent to me a copy of the speeches that were made, public speeches that were made by yourself and each of the presidents of the Federal Reserve Banks since the first of the year.

A. Let me just make this point. I have made a great many talks without a manuscript, and in most instances there is a transcript, but that type of thing--I mean, you have a small group; it is just like the transcript here. All formal speeches, of course we have a file, and I would be glad to get those for you, but I don't have--

Q. Whatever you can do conveniently.

A. Yes, I will be very glad to.

Q. I don't want you to transcribe anything that hasn't been transcribed, or try to reconstruct a speech that you made.

* * * * *

Q (by Mr. McCulloch). * * * I wish to have the record show that I do not feel the pessimism that has been indicated on the part of some of the members of the committee, or even some of the witnesses that we have heard in the last three or four days, and I would not want this committee to adjourn today without making that statement. I heartily join in the statement of my colleague, Mr. Seely-Brown, and with you, Mr. Martin.

A. And I want to make clear I am not a pessimist, either, Mr. McCulloch.

* * * * *

Q (by Mr. Brown). Mr. Martin, I have long had a genuine respect for your organization, and for you, sir. I have read many, many thousands of words that you have spoken and written, and I need some information right here in connection with this study, and I know you can supply it. You state, and I have always interpreted it this way, that the Federal Reserve's responsibility is primarily for relating the availability of bank credit to the needs of sustainable growth of the economy. Now, you mean by that, the whole economy?

A. The whole economy, yes.

Q. In its over-all picture?

A. That is right, Mr. Brown.

Q. Now, is it not true that even in a period when the whole economy is generally prosperous, that there can be certain segments of the economy that can be going backward in its relative position, rather than forward?

A. That is correct.

Q. Now, would you say that during the last five years, since 1951 let's say, six years it would be now, that generally most elements of the economy have been going forward, but the farm picture, for instance, has been going backward?

A. There have been ups and downs; right.

* * * * *

Q. So in one way of speaking, while there have been tremendous inflationary pressures, those pressures would have been much greater if farm income had maintained its relative position; is that correct?

A. That is correct, and one of the things that worried us in '55 was that the stability we were getting from the middle of the year on was arrived at in part--and that is one of the places we got worried about the picture from the middle of '55 on, was arrived at in part--by increases in manufacturing goods and items that went into farming, and decline in farm prices, so that the net looked like it was more stable than it was.

Q. In other words, in a very real sense the farmers were subsidizing the whole economy there for a while?

A. Well, they were in imbalance in the economy because of their supply and demand situation the pressure was down, you see, and the thing that had disturbed me, I think we had a pretty good record of stability up to about the middle of '55, but I don't think it is very good stability to have a balancing operation upon various parts of the economy.

* * * * *

Then came a return to the subject of the hearing--financing problems of small business. The hearing adjourned at 5:10 p.m.

* * * * *

FOR RELEASE
TUESDAY A. M.
NOVEMBER 12, 1957

ANNOUNCEMENT BY

REP. WRIGHT PATMAN

CHAIRMAN, HOUSE SMALL BUSINESS COMMITTEE

HEARINGS ON "FINANCING PROBLEMS OF SMALL BUSINESS"

Chairman Patman (D., Texas) of the House Small Business Committee today announced that the Committee will hold hearings November 20, 21 and 22, 1957, on the "Financing Problems of Small Business". The hearings will commence on Wednesday, November 20, at 10:00 A.M. in Room 1301, House Office Building, Washington, D. C.

High policy making officials, including Cabinet Members, will be heard. Other witnesses will include spokesmen for small business, as well as leaders in the fields of economic development, marketing of securities and banking.

Earlier this year, when the House Small Business Committee announced its program for this term of Congress it was stated:

> "A second investigation to be made by the full Committee will go into the financing problems of small business. Here we will want to determine, if possible, how well the private financing institutions are serving small business, * * *. This study will require factual surveys, some of which are now being made by the Federal Reserve Board and others by the Reference Service of the Library of Congress."

SELECT COMMITTEE ON SMALL BUSINESS
OF THE
HOUSE OF REPRESENTATIVES OF THE UNITED STATES
EIGHTY-FIFTH CONGRESS
WASHINGTON 25, D. C.

COMMITTEE ROOM:
129 HOUSE OFFICE BUILDING
NATIONAL 8-3120, EXT. 1846

BRYAN H. JACQUES
STAFF DIRECTOR

EVERETTE MACINTYRE
GENERAL COUNSEL

MRS. MARIE M. STEWART
CLERK

November 11, 1957

Hon. Wm. McChesney Martin, Jr.
Chairman, Board of Governors
of the Federal Reserve System
Washington 25, D. C.

Dear Mr. Martin:

This is to acknowledge and thank you for your letter of November 4, 1957, accepting an invitation to appear and testify before the Select Committee on Small Business, House of Representatives of the United States, on the Financing Problems of Small Business, at 3:00 p.m., Thursday, November 21, 1957.

The Committee is looking forward to your appearance and particularly to testimony from you reflecting your experience with this problem in your capacity as Chairman of the Board of Governors of the Federal Reserve System.

Sincerely yours,

Wright Patman
Chairman

Miss McLeland

November 4, 1957

The Honorable Wright Patman,
Chairman, Select Committee on
Small Business,
House of Representatives,
Washington 25, D. C.

Dear Mr. Patman:

Receipt is acknowledged of your letter of October 14, 1957, advising me that your Committee plans to hold hearings on the "Financing Problems of Small Business" in November and inviting me to testify on Thursday, November 21, at 3:00 p.m., in Room 1301, New House Office Building.

This letter will confirm Mr. Cherry's advice by telephone to Mr. MacIntyre that I will be present at the time and place specified in your letter.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

AKC:ac

HEARING BEFORE HOUSE SELECT COMMITTEE
ON PROBLEMS OF SMALL BUSINESS FINANCING

November 19, 1957

Present: Representatives Patman (chairman), Multer, Yates, Steed, Brown, Hill, Riehlman, McCulloch, and Hosmer.

Also present: Malcolm Bryan, President, Federal Reserve Bank of Atlanta, accompanied by Mr. Atkinson;
Alfred Hayes, President, Federal Reserve Bank of New York, accompanied by Robert B. Roosa and Dr. George Garvy;
Hugh Leach, President, Federal Reserve Bank of Richmond, accompanied by Thomas Storrs;
Delos C. Johns, President, Federal Reserve Bank of St. Louis, accompanied by Guy S. Freutel.

Patman's wire to the four Reserve Bank Presidents said the hearing would be a closed, but at Mr. Hayes' suggestion it was made an open hearing.

Mr. Patman: Gentlemen, we have prepared a memorandum here regarded as thought provoking to cover some of the points that probably should be discussed, and as Mr. Hayes has prepared a statement, and Mr. Hayes is President of the Federal Reserve Bank of New York, which has more to do with the Federal Reserve System than any other one bank, of course we all know that, if you would like to present your statement first, Mr. Hayes, it will be all right.

Mr. Hayes: In general we have felt that the best way we can help small business, within the zones of our influence, is to do all we can to help limit inflation, resist recession, and promote growth for the economy as a whole. While much concerned that small business should flourish, we share the typical American view that it should flourish in conditions of vigorous competition--suffering no special restraints, but also not being given artificial stimulants. Small business like large, wants to grow and prosper on its own in the real world, not in the overheated temperatures of a hothouse or a hospital.

The Federal Reserve would and should be genuinely concerned, however, if its efforts to promote conditions for business health should in practice produce greater differences in credit availability, as among types or sizes of borrowers, than the normal workings of competition would justify. In any economy, of course, there must always be differences among the units engaged in production or in distribution. But the differences must reflect, to the fullest possible extent, natural variations and not imposed obstacles.

Because of this underlying philosophy, those of us in the Federal Reserve System attempt continuously to watch for significant differences in the impact of credit policy upon various types of business, or groups of consumers, or units of Government. Our observations have for the most part revealed a pattern of reactions to credit policy that, while showing some differences, seemed to be the kinds of differences that were to be expected from the workings of competitive processes.

Nonetheless, there have still been allegations that, during a period of sustained credit restraint, some groups, particularly those of smaller size and least able to defend themselves, may suffer from discriminatory kinds of restraint that are not revealed through our regular methods of observation. That is why the Federal Reserve has now initiated a broad-scale inquiry into the problems and experience of various sectors of small business, as compared with large business, in obtaining financing over the past several years, and particularly in recent months.

The System studies will include all principal sources of funds; it is also hoped to be able directly to interview a large sample of borrowers. The scope of the studies is planned on such a comprehensive basis that all cannot be undertaken simultaneously. We have started, though, with what we know best--the activities of the commercial banks. I believe that arrangements already exist for the Board of Governors to inform members of your staff concerning the progress made. Both they and my associates have already consulted with your staff and other interested bodies on the approach and scope that the over-all survey of small business financing should take.

Even these initial efforts require the use of a large staff, and several months will be needed to complete the tabulation of results already obtained. At the Federal Reserve Bank of New York we currently have about 20 people who are "in the field" conducting supplemental interviews to amplify the vast quantity of statistical reports submitted to us by our member banks earlier this month. Similar efforts are under way at this time in all 12 Federal Reserve Districts.

It would be unsafe and unwise to generalize from the very limited portion of the returns that we have yet been able to analyze. If you should wish to have a brief summary, however, merely as an indication of some of the results that have thus far been suggested, I am sure that Mr. Garvy or Mr. Roosa would be glad to try.

Meanwhile, there is nothing new that has yet emerged from the current studies to serve concretely as another factor for us to take into account in formulating credit policy at the present moment. What I can say is that we felt reasonably certain, in taking the action to reduce our discount rate, that the lessening of credit restraint which this action implies would help to assure continued stability in the economy. As the further results of our special studies become available, we will better be able to judge whether our general impression has been correct--that is, that small businesses have, for the most part, been able to compete successfully for their share of the limited aggregate supply of available funds, under the conditions of high prosperity that credit policy has helped to maintain.

If it should develop that any particular kinds of small businesses, or any particular aspects of small business finance, have been disproportionately squeezed during the past two and a half years of credit restraint, the question that Congress and we shall then face presumably is: How can any discriminatory effects on small business be avoided without impairing that general control over the availability of credit which we must have, through good years and bad, to help minimize economic fluctuations for the economy as a whole?

So far as immediate effects of the discount rate action are concerned, the principal benefits should be those for the economy as a whole--helping to assure continued high employment, high incomes, and high spending for the products of all business, both the large and the small. But we must recognize that the discount rate is only one instrument of credit policy, and that credit policy is only one of the important influences upon these principal indicators of strong and rising economic activity.

We would be less than frank if we did not state that there is some risk, even though we trust it is one of low probability, that the economy may continue downward for a time. Should that be the case, any easing influence of the discount rate action or other steps in credit policy, however helpful, may be submerged in a general decline that would involve harsh new strains for all businesses of all sizes.

Having mentioned that caveat, I hasten to say that much the greater probability, so far as present evidence can be relied upon, is that economic activity will remain generally strong, that the inflationary risks we have been combating with reasonable success will subside for a time, and that the discount rate action (in combination with the slackened use of bank credit which has already occurred) will lead to somewhat easier general credit conditions. In that event, several possible influences upon small business may become significant:

1) To the extent that any current small business problems of financing are only a reflection of the over-all shortage of funds, some letting up on the availability of funds should unloosen many of the investing or spending plans of such smaller business that have been deferred or reduced in recent months.

2) To the extent that rising interest rates have been an added cost burden, as they appear to have been for all sizes of business (although the increases have been relatively less for small business), there may be some let up in these cost pressures. Other things being equal, this would be of some help to small business earnings with a variety of related stimulating consequences.

3) To the extent that indirect costs of borrowing have been increased, or perhaps access to credit itself has been reduced, because a few banks have imposed considerably higher balance-on-deposit requirements during the recent months of scarce money, some relaxation of this limitation may in time ensue. I should stress in this connection, as in most of the other items in the list of factors I am mentioning here, that I am not attempting to suggest reasoned, valued judgments or to imply that I have definite knowledge. In the case of balance requirements, for example, this simply occurs to me as the kind of behavior that one might visualize; I would not wish to imply, though, that I know of any individual bank now which has been requiring higher balances from its borrowers than could be justified by good standards

of safe banking. Just as an aside, I have been impressed with the variety of evidence coming to me which suggests that standards of credit administration during the recent boom have been much more strict than in past booms with little signs this time of the fever that often affects credit granting agencies during the exhilaration phase of the boom. I am certain that this has been a very useful by-product of the restrictive policy the System has been following, and that it will prove a great source of strength in helping to avert cumulative downward liquidation in the event any significant decline should begin gaining momentum in the economy as a whole.

4) To the extent that new borrowers, especially when small, have found difficulty in establishing good banking connections, that may become easier.

5) To the extent that small businesses may be clustered in industries that have contracted somewhat more than others in recent weeks or months, any general growth in output that occurs over the months ahead may give these particular small businesses a special lift. Possible examples might be contractors engaged in residential construction, or real estate developers.

6) To the extent that small business suffers more heavily than large from price inflation, the recent attainment of wholesale price stability, and the current prospect for a time of consumer price stability, provide a surer framework within which small businesses can plan their action without fear of being upset by outside factors which they can neither understand nor adequately follow. In the same way, the more settled conditions of relative price stability make it possible to furnish the data needed for credit analysis, by any type of lender, with somewhat more assurance as to its reliability. Thus, where detailed credit analysis precedes the granting of credits, particularly to new customers, the climate of general price stability--assuming it can be maintained amid conditions of high general prosperity--should foster the cause of small business in competing for the funds that lenders have available.

7) To the extent that small businesses need term loans (as a partial substitute for their more limited access to the capital markets) such types of loans may become somewhat more available if credit is generally easier.

I should stress again that this list of possibilities is simply a first attempt to list, in specific response to the interest indicated in your telegram to me last Friday, the kinds of influences upon small business financing that might possibly emerge. No doubt there are many others that further study might reveal.

And perhaps some of those I have listed, being only the first thoughts that have occurred to me, may not stand up under subsequent developments and investigation. I have, however, attempted to be responsive by being suggestive, rather than limiting myself exclusively to the simple generalization that "what helps all business helps small business."

That is the end of the statement that I have, sir.

Q. Thank you Mr. Hayes. I wonder, Mr. Bryan, if you would like to comment on what Mr. Hayes has said, or if you agree with it or do not agree with it, or have comments of your own.

A. Mr. Chairman, listening to Mr. Hayes' statement, I do not believe I would disagree with it. The fact is, I think in general I would agree with it. I am, myself, sir, tremendously concerned with the whole question of possibly inequitable impact of monetary policy. The American people, I think, are generally concerned with the inequities of that sort, so I think we have got to arrive at the facts, just so far as we can, so I have been enthusiastic about this whole exploration that we are conducting into the field of the exact impact of policy.

Q. Thank you, sir. Now, Mr. Leach, would you like to comment?

A. Only to say this: That we are spending and have spent a tremendous amount of time on this study, and that I hope and believe that it will serve a useful purpose. I would not undertake at this time to predict what that study would show. I think it will be much better to wait until we see what we find out and then arrive at a conclusion.

Q. Mr. Johns, would you like to comment?

A. Very little, Mr. Chairman. This is a field, of course, in which there have been conflicting impressions and conflicting views. That perhaps explains the fact that a study has been undertaken. At the moment, my mind is completely open and awaiting the result of the study.

Q. Now, to bring the issues down more clearly to what we had in mind when we asked you gentlemen, the four Presidents of the four Federal Reserve Banks, Reducing the Discount Rate, I think this statement which has been given to each one of you will bring up the points that I believe we would like to have discussed, and if it is all right I will just start out by asking some of the questions.

Then, any members of the committee who desire may just ask any questions they want to.

If they want to do it before we get through with the questions, they may, or they can wait until we get through, whichever they prefer.

Now, the first question is: "Is it expected that reducing the discount rate alone without other policy changes will have any substantial effect on credit, and if so, how will this come about?" Mr. Hayes, would you mind taking the lead in answering that one.

A. Well, I think that we are getting into an area there where it is pretty difficult to get specific on. It is my view that discount rate action usually is associated very closely with related actions of the Open Market Committee, or other credit instruments, and it seems to me that to get into a responsive answer to that would almost necessarily involve me in perhaps giving some indication of what our intentions or present ideas are on other credit instruments which are certainly within a realm that I don't believe I am free to discuss here. As you know, there is a regular arrangement whereby the Open Market Committee reports its actions to Congress, and I think there is a very firm tradition that they are not expected to report on those actions in any other way, particularly not right while the actions are on the fire, so to speak.

Q. Mr. Hayes, we have no desire to ask you to reveal or divulge something that would interfere with your present activities, or would have a bad effect, certainly not. However, I would like to ask you this question: Is there any coordination between the discount window activity and the operation of the System's open market account? Now, you are the only one on the floor, so to speak, that can answer that particular question.

A. I certainly can say, in general, that the discount window is always administered in accordance with general long-term policies, and those policies are primarily as set forth in Regulation A of the Board of Governors Regulations, and those basic policies determining the way the discount window is administered, they are pretty steady, pretty constant, so that the way in which the discount window is administered does not change, per se.

* * * * *

Q. You would say, then, that there is coordination, Mr. Hayes.

A. Definitely.

Q. Now, how is this coordination brought about? Do you have conferences in which you discuss it or do you have the information that is sent to you, the open market account, or how is this coordination brought about?

A. Well, essentially the major coordinating instrument is the Federal Open Market Committee which does really constitute the forum at which the presidents and the governors, 12 presidents and 7 governors have an opportunity to express their views, not only on the discount rate but on open market operations, possible reserve requirement changes, any margin requirement changes, or any other instrument in the realm of credit regulation, and it does constitute a very valuable forum for that purpose. Now, the committee reaches decisions on open market operations. It does not reach decisions on these other things because they are not within its actual authority, but having provided this forum, then that is supplemented later on at all times by free conversations between the presidents of the various Banks and their staffs, between the presidents and governors, and there is a continuing, very close contact between all units of the System.

Q. Through the Open Market Committee, of course, that is a good way to do it.

A. That is a very good way to do it, sir.

* * * * *

Q. Mr. Bryan, would you comment on the purpose of this reduction of three and one-half per cent to three, and the major considerations which led to the decision in your bank that you initiated yourself, or how was it initiated?

A. Oh, that is fairly easy to explain. Speaking purely and simply for the Atlanta Bank, what happens there is that our Board of Directors -- comes in and they meet. Well, ordinarily the staff and I, Mr. Patman, will present a very considerable chart showing, trying to say to the directors which way we think the wind is blowing, but every once in a while we do it exactly the other way: We say to the directors: "Now, you have got to get up and recite." Well, the directors come from all over the Sixth District, from Lake Charles, on the one side, and from Atlanta, Florida, and so forth, and we have the branch directors there represented. Well, on Friday, the second Friday in the month, it happened to be the directors turn to recite and they talked on the agricultural situation, on their sales experience, on their various business experiences, each one talking. Now, it would be impossible, sir, to summarize that for you, but I got very definitely from their comments, as against some months ago when they had done that, that the sense of exuberance has gone out of the thing, that they were not as confident, that there was a shift in expectation. Well then the staff which briefs me gave me a group of statistics, none of them very bad, but none of them exuberant, and from that, oh, and talking to Mr. D. C. Johns, and finding that he has gotten much the same impression from his sources, I came to the conclusion that from the Atlanta Bank, I wanted to recommend to our people that we shift the posture of the bank, and that is the way it happens, as simple as that.

Q. Do you have the power and the authority to do this yourself, Mr. Bryan?

A. Oh, no. All I can do is recommend to the directors, they can vote me down--

Q. You did not have my question like I really wanted it. Does your bank have the power to fix and determine this rate?

A. No, no; all we do is recommend.

Q. Recommend it?

A. And that goes to the Board of Governors, they can accept it, reject it, or hold it.

Q. Raise it or lower it?

A. Yes.

Q. And under the law, you are required to do this every 14 days, are you not?

A. That is right, sir.

Q. Mr. Leach, would you mind commenting on the reason that your Board recommended this decrease and the re-discount rate?

A. At the meeting of our board on November 14, it was reported by our economic staff that in recent weeks there was evidence of at least a temporary abatement of inflationary forces. We had quite a lot of statistics. For instance, prices of sensitive commodities had weakened, as had the more comprehensive wholesale price index; the consumer price index has approached stability; the seasonally adjusted index of industrial production had declined from 145 in August to 144 in September and 142 in October; nonagricultural employment had slipped, and so on. Also, that a recent McGraw-Hill Survey had indicated a forthcoming reduction in capital expenditures by business. The details of these changes and those occurring in a number of other series are (electric power generation, freight car loadings, unemployment compensation claims, and so forth) all of which reflected a widespread reduction in economic activity. Before this time, we had been seeing what has been coming, and referred to it as rolling adjustments, but our directors had not been convinced that we had an over-all widespread situation, rather than a weakness in certain areas. However, at this meeting I said--I would like to talk on the basis of my recommendations, rather than be interpreted as current policy, because I think I am free to say what I recommend. I said that I thought there was no basis for alarm at that time, for our economy is still operating at a high level with several outstandingly strong sectors, but they provide unmistakable evidence of an abatement of inflationary pressures, at least for the time being. I pointed out, for example, that I did not know for certain how long that was going to last, but it certainly seemed that we had an abatement of inflationary pressures for the time being, and because of that evidence I recommended to the Board that they take prompt action to adjust credit policy to the changed conditions in the economy. That would, I said, be another example of flexibility in the use of a credit policy tool. That was my recommendation.

Q. Why did you reduce it from three and a half to three? Did you consider reducing it, say, a quarter per cent?

A. We did consider that, and that was discussed. It was brought out that the last time we increased it, in August, we increased it a half per cent. It was also brought up that a quarter of a per cent was a big change when the discount rate was one and a half and two per cent, but that a quarter is not quite so big a change when rates were three and three and a half.

Q. So, it was actually considered?

A. Yes.

Q. Did you take into consideration what the other presidents of banks were going to do, Mr. Leach?

A. We did not. We did not know what they were going to do, and I think that is getting into a field that I would rather not comment on, what the other banks are doing, now, what they intend to do.

Q. Naturally you discussed it over the telephone frequently.

A. We discussed it over the 'phone. I had a reasonable idea that maybe some would change, I didn't know.

Q. But you had an idea that the Federal Reserve Board would look with favor upon the action of your Board in reducing the rate from three and a half to three per cent?

A. I think that is getting into the realm of the governing power--

Q. I am just asking for your opinion, Mr. Leach.

A. I had rather not express an opinion, if you will excuse me.

Q. In other words, was it your opinion that the Board would look--

A. I think I would be commenting on current policy if I said that.

Q. Mr. Johns, from the St. Louis Federal Reserve District, would you comment on the reasons why your Board recommended a reduction?

A. Mr. Chairman, I think I may, with propriety, speak of the reasons which led me to make a recommendation, but I would hardly feel that I could with propriety interpret the action of my Board, more than the action, itself, does. The information which was available to me with respect to the behavior of the national economy was available to all other Federal Reserve Banks and to the Board of Governors. I would assume, since I believed my conclusion to be correct, that others might possibly reach similar conclusions, but beyond that I could not go. It was my belief, in making the recommendation which I did make, that the posture of the restraint which was implicit in the current state of affairs, in view of the behavior of the economy, needed to be moderated somewhat, and upon that basis I made the recommendation to our Board.

Q. Would you mind stating whether or not you had an opinion at the time it would meet with favor, with the Federal Reserve Board, if you reduced the three and a half per cent to three per cent, Mr. Johns, if you recommended it?

A. As I have said, Mr. Chairman, I think I might logically assume that others would interpret the same statistics, the same information perhaps in about the same way that I would.

Q. Including the Board?

A. Yes, sir, and the members of this committee and all other informed members of the business community, the financial community, and the public at large.

Q. Now, Mr. Hayes, we have not asked you to comment on that so far. We would like to have your comments on the reasons why this rate was reduced in the New York District from three and one half to three per cent, and whether or not it was initiated by your group, by the Federal Reserve Bank Directors and officers, or whether or not it was initiated in Washington by the Federal Reserve Board.

A. First, on the reasons, I think that by and large the economic factors that Mr. Leach has already listed were similar, with the same general type of general considerations that led us to our conclusions. We felt that there was less inflationary pressure, less price pressure, upward price pressure than there had been; felt that there were more definite signs that the fiscal amount of production and sales was tending downward. We felt that the amount of credit demands in the economy was proving to be considerably less than had been expected, and those are all factors which, to our way of thinking, warrant a modification of the kind of policy of restraint that we had felt was appropriate Now, as to the exact way in which the move was made, as I said at the beginning, in this kind of action there are frequently many conversations among banks, between the bank and the Board, and I don't think that it is proper for me to go into the details of those conversations, and conversations there may have been because it would involve people other than me. All I can say is that I came out with the recommendations that the rate be reduced from three and one-half per cent, to three per cent.

Q. Would you mind stating whether or not you had reason to believe that it would meet with favor with the Board, and the Board would approve it if your Board did reduce it to three per cent?

A. I think I would prefer not to answer that, just in keeping with what I said that it brings in the reasoning of other units in the system, and I do not think I should be trying to explain what their position may have been or may not have been.

* * * * *

Q (by Mr. McCulloch). And was the information which you had from these other sources substantially in accordance with the facts in your possession?

A. Again I had rather not say what the opinions of these other sources were, in the system. I would merely like to stand on the statement that it was as a result of all the contacts I had and the results of an examination of all the facts that we had at our disposal in that bank, this feeling did grow on us, and I should add one other factor: There was a Treasury offering coming up, and that was another factor that could perhaps--Treasury offerings always have some bearing on our policy considerations, and there was something to be said for making some move that would clear the air before that thing came along.

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Q (by Mr. Brown). Now, in the last two increases, did a single one of you four gentlemen, or your directors, your recommendations disagree with the action that was finally taken? In other words, was it unanimously recommended, were those two unanimously recommended?

A (by Mr. Hayes). I can speak, for example, of the August increase. In that case our bank was either the last or one of the last two banks to make the increase. Our directors and, I might say, our management were reluctant to make it and delayed making it, but felt that it was desirable to go along with.

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Q (by Mr. McCulloch). But as I understand, you reluctantly went along with the recommendation?

A. I had some doubt in my mind as to whether it was desirable to make that additional increase.

Q. And did you then convey your feelings to the Board prior to the time the action was taken, if that be a proper question?

A. I am not sure that is a proper question, sir. I had rather not answer it, except to just go back to the old statement that there is a considerable interchange or exchange of views at all times on the thing.

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Q (by Mr. Multer). We have been told that the rediscount rate is one instrument of credit control. Now, is it the fact that each time the rate was increased, it was to restrain credit?

A (by Mr. Hayes). Could I attempt to answer that, sir? I think there are different ways in which the discount rate can be used in connection with credit control.

Q. May I stop you there? Is there more than one way to use the rediscount rate, other than to increase or decrease it?

A. What I mean to say, sir, increasing it or decreasing it can be taken with a different objective in mind, under different circumstances. There are times, as was the case in August, and I think as Mr. Leach pointed out, when the main reason for doing it if you did it, was to bring the discount rate into line with what had gone before in the way of a substantial increase in market rates. There was a disequilibrium between the discount rate and the market rates.

Q. You wanted to be sure at that time that the borrower from the Federal Reserve System didn't have an excess of profits, that the Federal Reserve System would charge them a rate which was commensurate with what they were charging their customers?

A. I would not say that we are very concerned about that, because we hoped that our administration at the discount window prevents the bank from abusing the opportunity to make a substantial spread, but the wider the spread is the harder it is to police the discount window.

Q. You are now getting at the very point I have been driving at. By the control of the discount window, making discounts or refusing to make discounts, you can control the amount of credit the bank can get, and no matter what the rate is, if they want the money, you make it available to them whether they make the rate high or not? Is that it?

A. I am sure the level of rates would not have too much influence on that.

Q. Does it have any influence if they charge six, whether you charge three or three and a half?

A. I think it does have a real influence there.

Q. Would you say that the so-called big banker who has been quoted in the newspapers since the last decrease, when he says that any banker would be a fool and should have his head examined if he is going to cut the rates he is charging his customers, because he is paying less than the Federal Reserve bank for money, is that man talking through his hat or really talking sense--that he will not, or his bank will not cut the rate to the customers because of the cut in the interest rate on rediscounts?

A. Well, I think in the final analysis his decision will be based on competitive factors, and if credit should become abundant enough from various sources he will probably be led to reduce his rate.

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Q. Let's try to keep to the technicalities of the situation. If the increase in the rate each time was to be anti-inflationary and it didn't keep any money out of the market, there was just as many loans made after each increase of the rediscount rate as theretofore, do you think the decrease of the rate is going to be deflationary now?

A. Deflationary?

Q. Yes.

A. I don't think that the increase in rate failed to have any effect on the amount of borrowing.

Q. Did the borrowings increase?

A. Perhaps I should put it this way: The interest rate I regard at least as the sympton of the availability of credit in relation to the demand for credit, and when the rate was allowed to go up, to give effect to the fact that the credit demands were in excess of supply, it did indicate that there was some limitation being put on the amount of money, of loanable funds in the economy, and I think that limitation was a very healthy one.

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After some discussion of Regulation A and operations at the discount window:

Q. (by Mr. Multer). We have established the use of the discount window, it cannot control the supply of money, will not make more or less money available to the banks that want to borrow from the Federal Reserve Banks for the purpose of lending to their customers, am I correct in that?

A (by Mr. Hayes). No, sir. I would think that is not the case. I would think there is a certain amount of flexibility in the amount of reserve that can be obtained by the bank through the discount window, and of course the flexibility on our part in the amount we put voluntarily at the disposal of the bank in the open market.

Q. The Federal Reserve Banks can, if they want, say, "We will lend to you no longer, even though you are a member bank, even though you qualify, and your loan qualifies and you have met every requirement of statute and regulation, because we are not going to lend you any more money because we don't want any more money in the market."

A. We can do that in the statute, sir, but I cannot remember, in my memory, when we have ever done it. We have never actually refused to make a loan when a bank brings a note in, but if he is borrowing excessively and continuously on relatively infrequent occasions we do have talks with the banks doing that and say, "Look, can't you do something over a period in the near future which will enable you to stop coming in to us regularly," and they always do.

Multer stressed his point that increasing the discount rate did not reduce member bank borrowings, and he continued:

Q. But the increase in interest rate had no effect when you raised it to three per cent and raised it to three and a half per cent, except to increase the cost of borrowing by the United States Government, isn't that so?

A (by Mr. Hayes). No, I would not admit that, sir.

Q. Let's not say that was the cause of it. The fact of the matter is that each borrowing by the United States Government after you raised it to three per cent, and the borrowings by the Government after you raised it to three and a half per cent was at a higher rate of interest to the government than theretofore, isn't that correct?

A. That is correct, although there was no exact correlation between the discount rate rise and the cost of Government financing. In fact as I said, most of the increase in the discount rate was to adjust to existing market rates that had already gone up because of the abundance of credit demands from all kinds of sources, including the Government.

Q. Now, decreasing the interest rate now from three and a half to three per cent is not going to make any more money available in the market, is it, just the decrease of the interest rate alone without any operation of the

Open Market Committee, without any change of reserve requirements? Decreasing the rate from three and a half to three per cent, will that make any more money available in the market?

A (by Mr. Bryan). May I suggest a point? Mechanically, no. If I were to answer it, sir, there is an effect, however, that I don't think we ought to overlook: I think in terms of cotton and a few other things when prices of cotton are rising, people tend to hold, when it is declining, people tend to get rid of it. That is the way people respond to prices. Now, this may have some effect, if it changes the expectations of people who are holding funds in expectation of still higher rates, it may make more money available.

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After further discussion of discount operations:

Q (by Mr. Yates). I seem to remember Mr. Martin disagreeing with you gentlemen on some things. I think he is probably one of the key men in the picture, is he not?

Well, as late as November 6, Mr. Martin thought that there was still tremendous inflationary trends which did not warrant a trend, didn't he, at least in his speech to which I had reference, made at the conference recently, where he said there was no relenting from the anti-inflationary measures, and our good friend from Richmond says there was a decided drop between August and October.

A (by Mr. Leach). November.

Q. I thought we were using October in our discussion before. We were using October, weren't we, actually?

A. There were reductions in October, but not enough to warrant any action. In November there was a tremendous amount of movement, I should say a tremendous amount more, and that was the reason we changed the rate.

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Q. He said there has been no relenting of anti-inflationary pressure.

A (by Mr. Hayes). It is my own opinion that it would be more proper to ask Mr. Martin to interpret that speech himself.

Q. No relenting of inflationary pressures, that was his opinion. Who sets the policy, Mr. Martin, does he interpret what is going on, or do you fellows interpret what is going on?

A (by Mr. Hayes). The Open Market Committee functions there. Twelve people have equal votes, in fact you have 19 people all expressing their opinion. And he is merely the announcer, or executor for the Committee.

One co-equal member of the 12 members of the Open Market Committee.

Of course actually, I don't mean to imply that he is not the key man in the System. He is, because the Board of Governors has exclusive powers over other instruments, like reserve requirements and so on, so he is undoubtedly the principal policy man in the System. I don't mean to deny that.

Q. Was he in a category by himself, in so far as the thinking of the Board was concerned at that particular time? The reason I say that is because our friend Mr. Leach here states that at least he saw the pressures relenting, and I think all of you at that time were of the opinion that the pressures were relenting. Why then did Mr. Martin come to an opposite conclusion?

A. My personal feeling is that you are getting right into the realm of open market policy, practically current policy and that is not the kind of thing that we should be disclosing.

Q. I would not want to embarrass you.

A (by Mr. Bryan). Could I make a slight comment? In the first place on the change and statistics, some things have become very recently available. Unemployment figures show some deterioration. We have had the shift in income downward so that we have had some recent figures that do indicate and confirm what was said. Now, I think we ought to use fully, and can usefully make a distinction between a short loan, which may be one of economic adjustment, and a very long loan. For instance, in the long run I would heartily agree with Mr. Martin, that the problem may still remain one.

Q. Did you say hardly, or heartily?

A. Heartily, and for two or three fundamental reasons: One of them, as you know, sir, is that the population is expanding by leaps and bounds, and it is the task of saving enough to outbid them with all of the capital required, which is going to be very great, and then as we all also know, as citizens and Congressmen, the country has an enormous task of national defense, which is a necessary thing but requires tremendous amounts of our gross national product to do adequately. I think in the long run those two factors put our economy under a tremendously real strain, and means we must be at great pains to produce the savings necessary without inflation.

Q. The thought that comes to my mind is that this is a picture that requires money, and I don't know how you can reconcile this with a tight money policy. You have got a booming population, you have got defense needs, you have got an economy that will require a constant expansion to take care of the needs of the people. Why then do we want a tight money policy?

A (by Mr. Bryan). Well, it depends, sir, on how we want to produce the money. Do we want to produce the money by multiplying dollars, which simply builds the prices, or do you want to produce it by the savings of the people? I would assume, at least it is my assumption that we want to do it by the savings, rather than multiplying dollars.

Q. Both you and I agree that the money will be required.

A. Yes. I should say, in vast amounts.

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After a discussion between Mr. Yates and Mr. Roosa on effects of credit policy in checking the capital expansion boom:

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Q (By Mr. Yates). Did I understand that the devices that were utilized had a very salutary effect upon checking the inflation, and that the Government would have paid much more money than it actually did pay? What did you have in mind? I know that the defense program is paying much more for the same products now than it did a year ago. Where was the inflation checked, then?

A (by Mr. Hayes). All I am saying is that this gets back into the difficult realm of what would have happened if we had not done what we did. In my judgment, if we had not refrained, the expansion of money supply prices would have gone up a lot more, and everything that the Government bought, instead of going up 5 per cent, would have gone up 10 or 14 per cent--I am just picking numbers out of the air--but the increased cost could have been much greater than what they have paid in additional interest.

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Q (by Mr. Patman). Do you have any understanding that the Board wants this done? Is it just a question of which banks will take the initiative first? Do you have any conversational or unconversational understanding about that, Mr. Hayes?

A (by Mr. Hayes). I think it would not be proper for me to go into that; that is for the Board to tell you.

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Patman then turned to questions of 13-b loans, and to proposals that have been made for setting up capital banks, using in part at least funds drawn from reserve bank capital and surplus.

Q (by Mr. Patman). I did not intend to get into any dispute with you, and I hope you take this good-naturedly, but it disturbs me to say that you are dependent on your reserves and capital as a central bank, one of the 12 Federal Reserve Banks, when your capital does not enter into your business at all, it is not used, and your reserves are not used. Your power comes from your power to create money, which you do.

A (by Mr. Hayes). Quite correct, Mr. Patman. But I think that any enterprise that involves making substantial investments in assets, whatever they may be, probably does well to have some reserves for contingencies. We are an operating bank, an organization that does have income and outgo and presumably we should have some cushion somewhere to take up unforeseen expenses.

Q. That is what disturbs me, Mr. Hayes, that you think you use this reserve--

A. I do not mean to say that the size of our capital and reserves affects our market operation, because it does not.

Q. Of course, it is so insignificant--

A. I agree that it is a relatively unimportant factor. And I just have a general feeling that some kind of a contingency fund is a desirable thing to have. But I certainly agree with you that it does not have a major bearing on any of our policies.

Q. And if you are going to have something like a capital bank for small business, and if the Congress takes $10 million out of your reserve fund and lets this capital bank have it, you would rather have it divorced from the Federal Reserve operations altogether, in other words, entirely separate and distinct?

A. That is my offhand instinct, yes, sir.

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Q (by Mr. Steed). I have one point, just for clarification, Mr. Hayes, as I followed your remarks when you were discussing the reasons that you had, or the thinking you were going through when you decided to recommend the rate cut, you made some comment about you took it into consideration, among other things, the fact that a Treasury offering of bonds and securities was pending.

A (by Mr. Hayes). Yes, sir.

Q. Would you comment a little more on that, just how that affects--

A. Well, I think that whenever you have a Treasury operation pending, there is some advantage to doing whatever you are going to do before the thing is launched, so that you have a clear knowledge of what conditions are and the reserves on which they can base their operations. We have a sort of general policy of what we call trying to keep on an even keel during a period of financing. So it can be argued that if we were going to change the rate at some time in the near future, that there was some advantage in that point of view in doing it promptly.

Q. Would I be correct in assuming that your action, coming as it did, would enhance the advantages the Treasury m ght expect in offering its securities as against what it would have been faced with had you not made that--

A. I think that the action probably did make the financing a little bit easier.

Q. Would it have been an advantage in the sense that more buyers of those securities would be available, or that a better interest rate to the Treasury itself would be available? Would that be of some benefit?

A. It could be both, yes. Any move purely in the direction of easing credit is advantageous from the point of view of floating any issue, whether it is Treasury or any other bond.

Q. There has not been yet enough experience for you to say for certain if those anticipated benefits have been realized to any degree?

A. I think the term which the Treasury has actually put on its new offering as announced in today's paper tends to confirm it.

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Then came discussion of automobile sales and financing terms.

Q.(by Mr. Patman). I have three questions I want to ask. And we will call on each one of you gentlemen to make a statement, if you desire to make a statement. First, I will ask Mr. Hayes, was any downward tendency in bank rates in evidence before it was decided to reduce the discount rate, and have any member banks in the district announced great reduction since the reduction of the discount rate was announced?

A. As far as I know, there have been no downward movements in member bank rates up to the time of the reduction or since, to the best of my knowledge--there have been decreases in some market rates.

Q. Like bankers acceptances?

A. Yes, primarily since the move.

Q. Mr. Johns, would that be your answer?

A. Yes.

Q. Mr. Leach?

A. Yes.

Now, prior to action of last week, what did the member banks indicate if anything as to the course of their own interest rates if a reduction in discount rate were made, and was there a general sentiment among the member banks for a reduction of discount rates?

A.(by Mr. Hayes). I don't think the member bank had any inkling of what was coming.

Q. You think it was a complete surprise to all of them as well as to ourselves?

A. That is right.

Q. What is the most realistic explanation for the fact that the level of interest rates in the commercial banking system follows the discount rate?

A. I don't think there is any very close connection. I think if you measured the prime rates against the discount rates over a period of years you would find a very widely varying spread between the two. Of course, there is some psychological effect always when you move the discount rate, it is a widely known rate, and it also may have some effect in their minds because of the cost of borrowing, but I don't think it is--certainly there is no very close and necessary connection.

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Patman asked further questions about the System's study of small business finance, and remarked:

"Well, we will comply with your suggestions and ask Mr. Martin about it. He is always a good witness, and he always gives us the information we want. And I am sure he will be glad to cooperate with us in giving us the information we want."

The hearing then adjourned at 4:30 p.m.

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TOPICS FOR POSSIBLE DISCUSSION WITH THE 4 FEDERAL RESERVE BANK PRESIDENTS

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The primary interest of the Committee is centered on the economic health of the 4 million small business firms in the United States, and especially the effects on small business of general credit contractions and expansions. Consequently, it is hoped that discussions of the following topics will come to a focus of this particular interest.

1. The purposes of the reduction in the discount rate announced last week, and the major considerations which led to the decision to reduce the rate.

2. Is it expected that reducing the discount rate alone, without other policy changes, will have any substantial effect on credit; and if so, how will this come about?

   (a) Have member bank applications at the discount window declined, and if so, has this been due to the level of the previous discount rate?

   (b) What has been the recent trend in demand for member bank loans in the district, and recent trends in member bank reserves?

   (c) Is it expected that the reduction in the discount rate will be reflected in member bank rates, and if so, what is expected as to the scope and timing of such reductions?

   (d) Was any downward tendency in member bank rates in evidence before it was decided to reduce the discount rate; and have any of the member banks in the district announced rate reductions since the reduction in the discount rate was announced?

   (e) Prior to action of last week, what did the member banks indicate, if anything, as to the course of their own interest rates if a reduction in the discount rate were made; and was there general sentiment among the member banks for a reduction in the discount rate?

   (f) Will the expected expansion of credit come about principally from a stimulation of the demand for credit, resulting from the lower bank rates?

(g) How does the amount of credit extended through the discount window compare with the volume of member bank loans in the district?

(h) What is the most realistic explanation for the fact that the level of interest rates in the commercial banking system follows the discount rate?

(i) What types of economic activity are expected to be most affected by a reduction in interest rates, and in what way will these areas of the economy be affected - that is, will the principal effect come from an increased availability of credit,from a lower price of credit, or perhaps in some indirect way?

3. Has the decision to lower the discount rate been the only action taken to ease credit, or was lowering the discount rate merely a correlary to other decisions to make more credit available, either through the discount window or the System Open Market Account, or both?

(a) Has the volume of the Bank's lending at the discount window in the past 12 months been governed principally by current policies toward general credit restraint or ease, or are the Bank's policies for operations of the discount window directed at accommodating commerce and business, leaving control of the general level of credit to the System Open Market Account?

(b) Whether or not discount window activity in the district is tailored in any substantial degree out of considerations of the total money supply, to what extent is there coordination between discount window activity and operations of the System Open Market Account, and how is such coordination brought about?

(c) What is the approximate volume of credit which has been applied for at the discount window and refused by the Bank in, say, the past 6 months?

4. In the recent period of tight money, what has been the general experience of small firms in the district with respect to obtaining an equitable share of available bank credit?

(a) What has been the extent, if any, of member banks following a policy of allocating a share of their available loan funds to small business?

(b) To what extent have small firms increased their reliance for credit on non-bank finance firms; similarly, to what extent have member banks increased their loans to such non-bank credit sources, and finally, what is expected to be the effect on these areas of the actions announced last week?

5. Recent changes in the levels of economic activity and employment in the district, and any outlook or forecast for the months immediately ahead which the Presidents may care to give, with particular reference to the outlook for small business?

6. Any other topics which the Presidents feel should be discussed, and any suggestions or recommendations which they may wish to make to the Committee.

7. Finally, it is hoped that Messrs. Roosa and Garvy of the Federal Reserve Bank of New York will be able to give the Committee a brief review of the plans and progress of the study of small-business financing being conducted by the New York Bank.

TREASURY DEPARTMENT
Washington

STATEMENT BY SECRETARY OF THE TREASURY ANDERSON BEFORE SELECT COMMITTEE ON SMALL BUSINESS, HOUSE OF REPRESENTATIVES, NOVEMBER 21, 1957

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Your invitation to appear before this Committee gives me a welcome opportunity to express my deep-felt and long-time interest in the welfare and the needs of small business. Small and independently owned and managed businesses are fundamental to the American economy. Our great economic growth and our high standard of living have been based upon new production processes and improvements in efficiency, as well as on the availability of capital to provide machinery and equipment. We need to have as many centers of economic initiative as possible to give the greatest opportunity for new ideas and new techniques to be developed.

Each separate business in the country provides one more element in our system of competition. Fair competition -- and the avoidance of any semblance of cartel or trust arrangements -- have been important features in our economic development. We must continue to expand our competitive economic system. The ready opportunity for new businesses to be formed and to grow is a major element in a competitive system.

In our approach to the problems of small business, certain broad principles should be kept in mind. We are required by the very principle of self-government to exercise judgment and discretion. We must understand the impact on our entire economy of the decisions we make. And we must make those decisions with the welfare of the whole community in mind.

A soundly growing economy provides abundant opportunities not only for established firms to expand and prosper, but also for new businesses to be safely started. In this respect, Federal policies that promote confidence on the part of investors, businessmen, and consumers, and that encourage the spirit of free enterprise by preserving and strengthening competition, constitute in a broad sense the most powerful aid that can be given small business.

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This Administration's recognition of the importance of maintaining a healthy and progressive small business population has been evidenced in many ways. In 1953 legislation was enacted establishing the Small Business Administration, the first Government agency in our history devoted exclusively to financial assistance and many other forms of aid to small business. This Agency now has about 50 regional, branch and sub offices in continental United States, Alaska, Hawaii and Puerto Rico. The extent of its financial assistance to thousands of small businesses is indicated by the fact that through October 31, 1957 it has approved over 8,000 business loans aggregating more than $374,000,000. In addition, it conducts technical assistance programs covering a broad range of small business problems. It provides counseling services on financial and general management matters, on the development of new products and markets and on Government procurement contracts. It prepares and distributes publications dealing with the management problems of small firms. It issues other publications dealing with Government purchases and specifications. It consults and cooperates with other Government departments and agencies to make sure that small business receives a fair proportion of Government purchases and contracts for supplies and services. These activities in the field of technical assistance are probably of at least as much value to small business as the loans granted.

In addition to the Small Business Administration, various services of the Department of Commerce, the Atomic Energy Commission, General Services Administration, and the Department of Labor actively assist small business. Special small business programs have been set up in these agencies and also in the Department of Defense, the International Cooperation Administration, the Federal Trade Commission, and the Antitrust Division of the Department of Justice.

To maintain a continuing study of small business problems, to develop new programs and to coordinate the activities of departments and agencies in this field, the President on May 31, 1956 appointed a special Cabinet Committee on Small Business. This Committee after careful study made a report to the President listing fourteen recommendations. On July 15, 1957 in replying to a letter from The Honorable Jere Cooper concerning tax recommendations for small business in the budget message, the President made reference to all of these recommendations of the Cabinet Committee and their present status. Copies of the President's letter are being made available for the members of the Committee and the record. Some of the recommendations have already been carried out, specifically: (1) a thorough review of Government procurement policies and practices by a task force established by the Administrator of General Services Administration for the primary purpose of assisting small business, resulting in a comprehensive recommendation for amendments to the procurement laws which is expected to be followed by a legislative proposal in the near future; (2) the issuance of a Government-wide regulation prescribing policies and procedures with respect to advance or progress payments to small suppliers; (3) an amendment to the Renegotiation Board's regulations with respect to subcontracting; (4) a Conference on Technical and Distribution Research for the benefit of small business which was held in Washington in September; and (5) a study by the Bureau of the Budget for the purpose of simplifying the reports and statistics required of small business. Legislative proposals with respect to other recommendations are now before the Congress.

In considering the question of adequate financing for small business, I am impressed with the fact that there appear to be a number of channels through which credit is now available. These include the private banking system, insurance companies, factors and other finance companies, suppliers, state and local development credit corporations, and in special fields agencies such as the Fish and Wildlife Service of the Department of the Interior. In addition, the Federal Reserve Banks still have authority to make business loans under Section 13(b) of the Federal Reserve Act. Finally, the Small Business Administration exists for the purpose of providing financial assistance which is not otherwise available on reasonable terms.

In appearing before the Senate Banking and Currency Subcommittee on Small Business on June 20, 1957, Mr. Martin, Chairman of the Federal Reserve Board, agreed that the Board would undertake a study of the whole problem of financing small business for the purpose of determining where the gaps are, if any, and how those gaps can best be filled. We have conferred with the Federal Reserve authorities and have been advised that the study which they are undertaking will be extremely thorough and will develop not only facts as to the actual use of credit facilities but also the attitudes and experience of both lending institutions and small business recipients of or candidates for financial assistance. I think it is highly desirable that such a study be made and I am glad that it is under way, because there is a broad area in which I believe additional facts are needed to arrive at intelligent and constructive conclusions. Until these facts are fully developed, I feel that it would be premature for the Treasury to take a position with respect to the creation of new institutions or the establishment of new programs.

I have charged Assistant Secretary of the Treasury Laurence Robbins with the responsibility for the participation of the Treasury Department in the small business field, and for keeping me fully informed. Mr. Robbins for the past three years has served as the Secretary's designee on the Loan Policy Board of the Small Business Administration, and has attended and taken part regularly in the meetings of the Cabinet Committee on Small Business, although the Secretary of the Treasury is not officially a member of that Committee. I assure you that the Treasury

Department will follow with the keenest interest the progress of the Federal Reserve study, and I believe that the information developed by your Committee will be particularly timely in view of this study, the studies of the Cabinet Committee on Small Business and the activities of the Small Business Administration. We will cooperate in every way possible to the end that sound and constructive solutions of the small business problems may be found.

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