Y 4
Sm 1
Am 3/3

GOVERNMENT
Storage

96th Congress
1st Session

COMMITTEE PRINT

DOCUMENTS

AUG 29 1979

FARRELL LIBRARY
KANSAS STATE UNIVERSITY

FUTURE OF SMALL BUSINESS IN AMERICA

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
NINETY-SIXTH CONGRESS
FIRST SESSION



AUGUST 1979

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

49-467 O WASHINGTON : 1979

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

COMMITTEE ON SMALL BUSINESS

NEAL SMITH, Iowa, *Chairman*

JOSEPH M. McDADE, Pennsylvania
SILVIO O. CONTE, Massachusetts
J. WILLIAM STANTON, Ohio
WILLIAM S. BROOMFIELD, Michigan
TIM LEE CARTER, Kentucky
DAN QUAYLE, Indiana
DAN MARRIOTT, Utah
TOBY ROTH, Wisconsin
LYYLE WILLIAMS, Ohio
OLYMPIA J. SNOWE, Maine
DOUGLAS K. BEREUTER, Nebraska
ED BETHUNE, Arkansas
ARLEN ERDAHL, Minnesota
THOMAS J. TAUKE, Iowa
RICHARD H. ICHORD, Missouri
HENRY J. NOWAK, New York
THOMAS A. LUKEN, Ohio
ANDY IRELAND, Florida
DALE E. KILDEE, Michigan
IKE SKELTON, Missouri
BILLY LEE EVANS, Georgia
DOUG BARNARD, Georgia
CLAUDE LEACH, Louisiana
TONY P. HALL, Ohio

TOM STEED, Oklahoma
JOHN D. DINGELL, Michigan
JAMES C. CORMAN, California
JOSEPH P. ADDABBO, New York
FERNAND J. ST GERMAIN, Rhode Island
PARREN J. MITCHELL, Maryland
HENRY B. GONZALEZ, Texas
JAMES M. HANLEY, New York
JOHN J. LAFALCE, New York
BERKLEY, BEDELL, Iowa
FREDERICK W. RICHMOND, New York
MARTY RUSSO, Illinois
ALVIN BALDUS, Wisconsin
RICHARD NOLAN, Minnesota

THOMAS G. POWERS, *General Counsel*
LOIS LIBERTY, *Publications Specialist*
RAYMOND S. WITTIG, *Minority Counsel*

LETTERS OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C., August 2, 1979.

ALL MEMBERS,
Committee on Small Business,
U.S. House of Representatives, Washington, D.C.

DEAR COLLEAGUE: During the 95th Congress, our Small Business Subcommittee on Antitrust, Consumers and Employment, under the chairmanship of the late Honorable John Breckinridge (D-Ky.), conducted landmark hearings on the Future of Small Business in America and subsequently issued a report of the same title. The demand for this publication is unprecedented and it is a lasting tribute to Representative Breckinridge's dedication and efforts to assist small business.

This report, among other things, is an excellent compilation of statistics on the status of the small business community and its contribution to our economy. Our supply of this publication has been exhausted and it is being re-published as a committee print. I commend it to your reading.

With best wishes, I am

Sincerely,

NEAL SMITH, *Chairman.*

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C., November 7, 1978.

Hon. EDMUND L. HENSHAW, Jr.
Clerk, U.S. House of Representatives,
Washington, D.C.

DEAR MR. HENSHAW: Transmitted herewith is a report of the Committee on Small Business entitled "Future of Small Business in America."

This report is submitted with the approval of the full committee.

With best wishes, I am

Sincerely,

NEAL SMITH, *Chairman.*

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C., September 28, 1978.

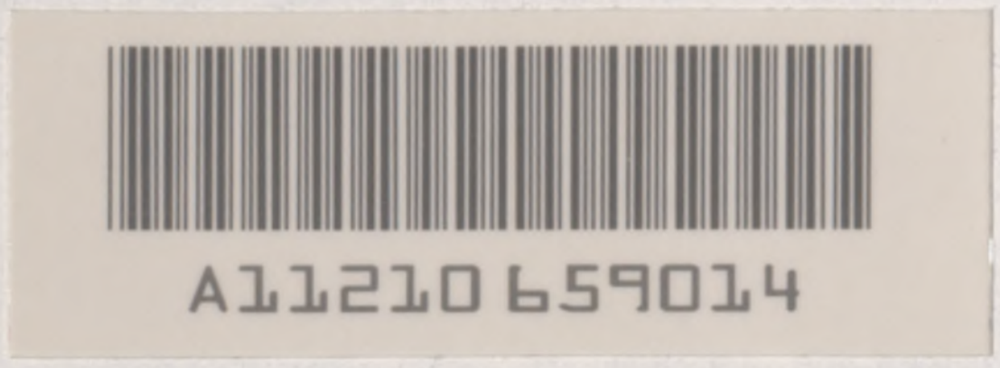
Hon. NEAL SMITH,
Chairman, Committee on Small Business,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report of the Subcommittee on Antitrust, Consumers and Employment entitled "Future of Small Business in America".

The report, transmitted to you as chairman of the Committee on Small Business, has the approval of the subcommittee.

Sincerely,

JOHN B. BRECKINRIDGE,
Chairman, Subcommittee on
Antitrust, Consumers and Employment.


A11210659014

CONTENTS

	Page
Chapter 1.—Introduction	1
Chapter 2.—Purpose and scope	2
Acknowledgments	3
Significance of the hearings	3
Chapter 3.—The role and importance of small business	5
Small business is the "cutting edge" of competition	5
Small business is the vanguard on innovation and invention	6
Small business is the Nation's job creator	7
Small business is a source of leadership	8
Small business as the entrepreneurial outlet	9
Chapter 4.—The status of small business	10
Manufacturing assets and the decline of small business	11
Sales and the decline of small business	13
Industry concentration and the decline of small business	13
Wholesaling	14
Retailing and the decline of small business	15
The decline of small business: The cost to consumers	17
More small businesses are sharing a smaller "piece of the pie"	18
Chapter 5.—Problems facing small business	20
Advertising's effect on small business	20
The problems of minorities and women	22
Small business: A major victim of inflation's "squeeze"	22
The burdens imposed by Federal regulatory policies on small business	23
Taxation and capital formation	24
(1) Lack of a graduated corporate income tax	24
(2) Excessive capital gains tax	25
(3) The ability of big business to take advantage of tax shelters	26
Monopolization and antitrust laws	26
Farming, rural America, and small business	27
Chapter 6.—Economists look at the future of small business in America	28
The structure of the American economy	28
Inflation: It hits small business first and hardest	30
Economic concentration: The nemesis of small business	31
Federal regulatory policy and its impact on small business	32
The economists look at the future of small business in America: An overview	32
Chapter 7.—Conclusion	34
Chapter 8.—Recommendations	39
Specific recommendations	39
Appendix	41

Union Calendar No. 944

95TH CONGRESS
2d Session
HOUSE OF REPRESENTATIVES
REPORT
No. 95–1810

FUTURE OF SMALL BUSINESS IN AMERICA

NOVEMBER 9, 1978.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SMITH of Iowa, from the Committee on Small Business, submitted the following

REPORT

FUTURE OF SMALL BUSINESS IN AMERICA

Chapter 1.—Introduction

The Committee on Small Business of the U.S. House of Representatives created six subcommittees at the beginning of the 95th Congress, each of which was given specific fields for investigation. The Subcommittee on Antitrust, Consumers and Employment was given jurisdiction over the following areas:

I. All antitrust laws including:
   A. The Sherman and Clayton Acts;
   B. The Robinson-Patman Act;
II. The Federal Trade Commission and Antitrust Activities; U.S. Department of Justice;
III. Anti-competitive Activities Affecting Small Business;
IV. Problems (including Job Creation, Capital Formation and Credit Availability) in nonmetropolitan and rural areas; and
V. Unassigned Regulatory Agency Activities.

The subcommittee was authorized, among other things, to hold hearings on the Future of Small Business in America.

The following members were appointed to the subcommittee:

Representative John B. Breckinridge, chairman (Democrat, Kentucky);
Representative Henry B. Gonzalez (Democrat, Texas);
Representative Berkley Bedell (Democrat, Iowa);
Representative Thomas A. Luken (Democrat, Ohio);
Representative James M. Hanley (Democrat, New York);
Representative Richard H. Ichord (Democrat, Missouri);
Representative Henry J. Nowak (Democrat, New York);
Representative M. Caldwell Butler; ranking minority member (Republican, Virginia);
Representative William S. Cohen (Republican, Maine); and
Representative Larry Pressler (Republican, South Dakota).

Jere W. Glover served as counsel to the subcommittee from January of 1978 to August of 1978. Steven J. Engelmyer was appointed counsel to the subcommittee in August of 1978. Katie Bachman and F. Daniel Davis were appointed secretaries.

Chapter 2.—Purpose and Scope

Realizing the vital role which the small business community must play in a productive economy, the Subcommittee on Antitrust, Consumers and Employment held a series of hearings on the Future of Small Business in America. In announcing the hearings, Chairman Breckinridge stated that a number of areas would be investigated,[1] including the following:

> (A) The contribution that small business has made to the economy, the present status of small business and the trends of its future.
>
> (B) Problems small businesses have when they deal with government agencies on the Federal, State and local levels, including the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice.
>
> (C) The credit and financial needs of small business as influenced by the tax code, tight money markets and various other financial restraints.
>
> (D) Small business's ability to increase employment: The subcommittee released startling figures showing that for the past 8 years, small business has accounted for most of the increased employment in the United States. While total employment rose by 9,583,000, the *Fortune 1000* employed only 74,897 of that number or 0.8 percent. While increases in State and Federal employment accounted for 3 million new jobs, the remainder were added by smaller firms.[2]

Subcommittee members were deeply disturbed by preliminary data showing the declining importance of small business in virtually all areas of the economy. The goal of these hearings was to determine the causes of this decline, their foreseeable consequences and possible antidotes.

Chairman Breckinridge posed three questions in defining the scope of these hearings:

First, is small business really beautiful and necessary and, if so, why is it diminishing in stature?

Second, if small is beautiful, will it be so in 10 or 20 years; and, if not, what will be in its place?

Third, what can we, as individuals at the cross roads of our communities throughout local, States, and Federal governments, do to make certain that small business remains both beautiful and viable in the future and insure that new opportunities are, generation after generation, available to oncoming and would-be entrepreneurs, as well as to our disadvantaged, our youth, our minorities and women?

---

[1] See the appendix to this report for a comprehensive outline of the issues under investigation during the hearings on the Future of Small Business in America.

[2] This information is published annually in the May and June issues of *Fortune* magazine.

ACKNOWLEDGMENTS

The subcommittee extends its sincere appreciation to Mr. Jere W. Glover, subcommittee counsel, for his help in planning and organizing this series of hearings. William Renfro of the Congressional Research Service, Marilyn Gadzuk of the Congressional Clearinghouse on the Future, and Katie Bachman, secretary to the subcommittee, also gave important assistance in the preparation of these hearings. Special recognition must also be given to John Lewis, president of the National Small Business Association, who gave freely of his time and offered invaluable advice and assistance to the subcommittee in the formulation of the plan for these hearings.

The subcommittee prides itself, not only on the fact that the hearings were the combined product of the small business, the academic and the Congressional Research communities, but also—and perhaps more importantly—on the fact that it was their joint working product, arrived at on a freely evolving, give-and-take basis by people of different disciplines and vocabularies, identifying and addressing a problem of the utmost significance.

SIGNIFICANCE OF THE HEARINGS

It is believed that the subcommittee's foresight hearings on the Future of Small Business in America were the first of their kind in the history of the U.S. Congress.[3] Testimony received during the hearings shows that throughout the years, the Federal Government has consistently ignored the small business sector, despite statutory rhetoric to the contrary, and failed to consider properly the future impact of congressional policy on this massive and major segment of our economy.

Congress has also overlooked the potential role which small business can, and must, play in the solving of our major economic problems such as unemployment and inflation.

In spite of the House "foresight" rule (House of Representatives Rule X, sec. 2 (b) (1)) adopted by the Congress and mandating that ". . . all committees and subcommittees—except Appropriations and Budget—shall, on a continuing basis undertake futures research and forecasting on matters under jurisdiction of that committee," current policy continues to reflect a lack of recognition of "futuristic" thinking. Rather than pursuing a course of contemporaneous reaction to emerging crises as they occur, this subcommittee determined that it was necessary to take the initiative and to plan those steps which it deemed necessary to sustain the continuing viability of the small business community.

Anne W. Cheatham, director of the Congressional Clearinghouse on the Future echoed the thoughts of the subcommittee on the need for futuristic thinking and planning. In her testimony, she stated:

> Just as the concept of oversight took hold in the Congress in the late 1960's and early 1970's, so will foresight become recognized as a policymaking responsibility in the late

---

[3] Similar efforts were undertaken in 1938 by the Temporary National Economic Committee, the creation of which was proposed by President F. D. Roosevelt and approved by a joint resolution of the 76th Congress. See *The Public Papers and Addresses of Franklin Delano Roosevelt*, Vol. 38, p. 305.

1970's and early 1980's. Just as oversight is needed to monitor present intentions and activities of agencies, so is foresight needed to explore future goals and possibilities.

But thinking about the future is more difficult than analyzing the past or assessing the present. To map unforeseen events—natural and unnatural—we must invert our way of looking at ourselves in the world and change the way we teach and learn. To think about the future, to talk about the future, we are forced to ask questions that have no apparent answers. It is hard to face a world in which no one has the right answers, but that is what we must learn to do. We must learn from our goals—from where we want to go, rather than from where we have been.[4]

In recognition of the data which showed the significantly diminishing strength of small business in our economy, it has become readily apparent that drastic action is necessary to prevent this precipitous decline. The subcommittee believes that a strong and healthy, opening and expanding small business sector is absolutely essential to meet many of the economic problems facing our country today. As stated by Carter Henderson, co-director of the Princeton Center for Alternative Futures:

> In my opinion, the future of small business in our country is going to have a great deal to do with helping the U.S. economy remain strong as we come down after 25 years of absolutely cornucopian growth to a rather slower-growing economy.
>
> . . . we are going to have to look to small business to pick up some of the slack to provide not only more jobs, but jobs for which over the next decade absorb all the energy and talents of the biggest, best-educated, and potentially the most capable labor force in U.S. history.[5]

The subcommittee was acutely aware of the problems involved with futures forecasting and the inherent doubt and uncertainty which accompanies it. However, grappling with these difficult problems and making choices based on the available alternatives was seen as more desirable than merely submitting to potentially destructive unforeseen consequences.

The complexities involved with economic problems pose major obstacles to any governmental unit attempting to formulate concrete solutions. The different sectors of the economy interact in constantly shifting patterns and are often influenced by forces beyond the control of any individual governmental body. Yet, unified and comprehensive planning based on present data and future projections is necessary in attempting to meet these pressing needs. The subcommittee noted a glaring absence of comprehensive data base dealing with the future of small business and a major purpose for holding this series of hearings was to encourage the accumulation of such information. Once such information is compiled, the subcommittee can begin to focus on the problem and to make informed policy decisions designed to prevent the further decline of such an important and integral part of our economy.

---

[4] Hearings before the Subcommittee on Antitrust, Consumers and Employment, Future of Small Business in America, pt. 1 (hereinafter referred to as hearings, pt. 1), p. 5.

[5] Hearings, pt. 1, p. 235.

Chapter 3.—The Role and Importance of Small Business

During the hearings on the Future of Small Business in America, this subcommittee heard numerous witnesses from Government, academia, and the small business community testify to the important role played by small business in our economy. As a provider of jobs, as a deterrent to high prices and monopoly power, and as the wellspring of the innovation and development that have made our Nation a world leader in technological advances and standard of living, the small business sector's record is unsurpassed. Our Nation, and the greatness it has achieved in the first 200 years, has been built upon the foundation of private enterprise. It is the small business community that has been, and continues to be, the traditional vanguard of that system.

This country's history is replete with the stories of ambitious men and women who turned great ideas into business dynasties. The Ford Motor Co. started as one man with a new method for industrial production. In retailing, the giant Macy chain traces its beginnings to a humble pushcart in the streets of New York. In more recent times, giants such as Xerox and Polaroid have emerged from a small firm with a better way to do the job, as have numerous less glamorous but highly successful firms.

The attempt to seek to preserve and strengthen small business opportunities does not grow from some misplaced feeling of nostalgia. Instead, the subcommittee wants to preserve the opportunities, the genius, the energies and the aspirations of the American way of life for future generations. This is not just the opportunity to start a business, important as it is for those who desire to do so. It is also important to preserve for the consumer the freedom of choice of both product and services—in quality, price, value, and availability. For this reason, economic diversity must be fostered and competition, through a plurality of competitors, must be strengthened as the only true hedge against growing concentration. The natural ally of the consumer is therefore small business.

Small Business is the "Cutting Edge" of Competition

There are many reasons to advocate a system which allows large numbers of small concerns to flourish, but one of the most telling is the importance of competition. In the words of Hon. Michael Pertschuk, Chairman of the Federal Trade Commission.

> There are political reasons, in the best sense of the word, which justify a governmental policy aimed at reduced concentration—for example, the deeply held American belief that power should be fragmented and that decision centers should be multiple.

Such policies are law today, but the effectiveness of the antitrust laws is doubtful. Many witnesses stated that the antitrust laws, as presently enforced, do more to harm small business than to protect our competitive entrepreneurs or strengthen competition.

Without large numbers of businesses in competition with each other, decisionmaking becomes concentrated, as does economic power. The result is fewer choices for the American public, both in a commercial and political sense. Where there is concentration in economic power, a concentration in political power follows, placing us outside the twin foundations of this country: capitalism and democracy.

Testifying for the Small Business Legislative Council, Thomas A. Rothwell said:

> The interest that we seek to define and advance, that of small business, is bottomed wholly on the conviction that the competitive process does not and cannot function as described by economists, unless there is an adequate number of competitors . . .
>
> A free enterprise economy simply cannot function as such without an active and effective small business component. Just as soon as competition becomes sufficiently "imperfect" because of the disappearance of competitiors, we then evolve into a "managed" economy. At first, that management is in private hands, the prerogative of a few decisionmakers at the top. Ultimately, such management becomes politicized as a major part of governmental processes. It really makes little difference what variety of "ism" is than annexed to the new system. It is no private enterprise; it is not capitalism as we know it.
>
> It then follows that interest in, and concern about, the future of small business springs from hardheaded commonsense, rather than sentimentality based on vague notions of the good old days. America needs and must have its small businesses, else the business structure of the Nation as we know it simply will not survive.

To an even greater extent, concentration of economic power results in higher costs to the American consumer. One estimate of the cost to consumers where competition is not allowed to flourish is $175 billion per year,[1] and other estimates place the cost of concentration and monopoly within our economy at more than $100 billion annually. An active, viable, growing small business segment of the economy is the force needed to bring those costs down.

Competitive pricing, however, is only one way in which small business responds to consumer demands. The life of a small business depends on its ability to respond to a need, or to provide service where other, larger businesses cannot respond as quickly, if at all. The record proves that small businesses are more innovative and inventive as a result of the compelling necessity to compete effectively.

SMALL BUSINESS IS THE VANGUARD ON INNOVATION AND INVENTION [2]

Invention and innovation are among the foundations of our economy. Labor, capital, and productivity are the three areas in which significant economic growth can be effected, and of these, productivity has traditionally been the area where the United States has excelled.

---

[1] Hearings, pt. 2, p. 15.

[2] See hearings before the Subcommittee on Antitrust, Consumers and Employment and Senate Select Committee on Small Business on Small Business and Innovation; Aug. 9-10, 1978.

The increases in productivity that have characterized the 200 years of our history find their roots in one principal source—new ways to do a job in such a way that it can be done with less effort, at a lower cost. From the cotton gin to the computer, Americans have found new ways to make the job faster and less expensive, and our economy has grown because of it.

Now a different trend is taking over. Productivity increases have slowed and a major factor in this decline has been the discouragemen of innovation at the small business level. Instead of encouraging small business innovation, the Government has made it more difficult by giving most of the Federal funds for research and development to the largest firms, which are the least efficient vehicles for the development of new technology.

Statistics compiled by the subcommittee indicate that in recent years small businesses have received less than 3.5 percent of all Federal research and development dollars. Despite this lack of attention, a Commerce Department study in 1966 showed that small businesses accounted for more than half of all scientific and technological developments since the beginning of this century. A similar study, conducted by the Office of Management and Budget in 1977 and released at the subcommittee hearings, concluded that the same trend applied through the period between 1953 and 1973.

Other studies presented during the subcommittee's hearings amplified these findings. A National Science Foundation study for the period between 1953 and 1973 concluded that small firms produced about four times as many innovations per research and development dollar as medium-sized firms, and about 24 times as many as the largest firms. In high-technology small businesses, the innovative aspects result in substantial employment benefits, according to numerous reports submitted to the subcommittee.

Small business is labor-intensive. In order to perform the function best suited to the creative and stabilizing position small businesses hold in the marketplace, small business relies on the talents of individuals to produce needed innovation at competitive levels. Even without the advantages of Federal funding for research work, this simple fact makes this country's small businesses the unquestioned leaders in the fight against unemployment.

SMALL BUSINESS IS THE NATION'S JOB CREATOR [3]

More than 98 percent of the commercial establishments in this country are small businesses, but small businesses employ less than two-thirds of all the private sector workers in this country. Therefore, it is surprising to some observers that between 1969 and 1976, small businesses accounted for what can be considered virtually all the new private sector employment in this country. The largest firms in our economy as listed in the "Fortune 1000" contributed less than 2 percent of the growth in new jobs. Studies from the Massachusetts Institute of Technology and the American Electronics Association placed the growth of hiring among small, high-technology firms anywhere between 24 percent and 40 percent, nearly nine times that of employment growth in other sectors of the economy. Moreover, a

---

[3] Hearings on Job Creation and Small Business were held by the Subcommittee on Antitrust, Consumers and Employment on Sept. 25 and 26, 1978.

study by Data Resources, Inc. concluded that for the same period as this growth, small, high-technology firms increased their output almost three times as fast as other economic sectors, while prices for products from these firms rose at one-sixth the rate of increase for the rest of the economy.

The sum of the effect of small business on employment is almost 66 times the effect of larger businesses! Small business is one sector of our economy capable of resolving the unemployment problem and providing benefits rather than additional tax burdens to the consumer. William K. Eastham, Chairman of the Board of Directors for the U.S. Chamber of Commerce summarized the importance of small business in this regard by saying,

> Historically, small business has created the bulk of new jobs. If problems of unemployment are to be resolved, it is likely that we must depend on small business as a principal factor in the solution.[4]

SMALL BUSINESS IS A SOURCE OF LEADERSHIP

Besides the more tangible, quantifiable effects of small business on the economy and society, small business people today are the leaders of tomorrow. Many former small business men and women who are now leaders of our Government, including our President and numerous Members of Congress, got where they are because of their strong community involvement and civic leadership. A recent Study of American Opinion conducted by *U.S. News and World Report* (February 13, 1978, p. 42) found that of 25 basic institutions, small business ranked second in "Honesty, Dependability, and Integrity." This country's small business people are believers in the rights and responsibilities of citizens, and strong participants in the spirit of independence on which this Nation was founded and with which it must continue to prosper. Our small business leaders are those who can and do create new methods of solving problems. Their high regard in their local and national communities is not so much a result of their business role as much as their willingness to break new ground, maintain the virtues of freedom and independence and "do their own thing." In his testimony before the subcommittee, Don DeBolt, Chairman of the Small Business Legislative Council, praised the virtues of small business leaders with these words:

* * * * * * *

> And that is why small business is important. These are the people whose entire lives are spent building a business to serve their communities.
>
> These are the people whose lifetime savings are built by the unheard-of manhour investments they have given to their business and their community. These are the people who believe the human spirit must be nurtured through religious and civic groups.

---

[4] Hearings, pt. 1, p. 310.

And these are the people who make their communities great and America invincible.

Without the small businessmen and women of America, we will become a Nation of computers, profit-and-loss decision-makers, automated robots who cannot give proper attention to the essence of living—the human spirit of our society and Nation.[5]

SMALL BUSINESS AS THE ENTREPRENEURIAL OUTLET

The urge to be an entrepreneur—to start a business of one's own—is virtually universal. America is the loser when this drive is suppressed. Arthur Burck, a private merger consultant, testified:

> America needs a continual flow of creative entrepreneurs ready to challenge new horizons, but in recent years the obstacles often have been insurmountable. Starved of capital, deprived of incentives, submerged in bureaucratic red tape and surrounded by the burgeoning bigness of the corporate giants, the small business sector has become a victim of the upheavals and recessions of the 1970s. It is a matter of national urgency that the small entrepreneur, while not yet extinct, has become an endangered species.[6]

Small business today is in a vise squeezed by the power of Big Government, Big Business, and Big Labor. Small business will wither unless the trend toward increasing concentration of economic, market and political power is reversed.

For this reason, we must come to grips with the forces threatening small business in this country today. We must seek and adopt a policy that allows small business to flourish and grow strong once again, to catch up and increase its share of the market, not out of a feeling for the good old days, but for the good new days that must come if we wish our Nation to continue as strong and as free and as competitive as we want America to be. Small business must be recognized for the strong positive balancing force that it is, and must be allowed to continue to provide this country with the positive benefits that have made individual entrepreneurs our national legends of strength.

---

[5] Hearings, pt. 1, p. 371.
[6] Testimony of Arthur Burck before the Subcommittee on Antitrust, Consumers and Employment, Hearings on Antitrust Enforcement.

49-467 O - 79 - 3

Chapter 4.—The Status of Small Business

Before examining the future of small business in America, the Subcommittee on Antitrust, Consumers and Employment thought it was necessary and important to understand first the present status of this sector of our economy. As a means of gaining the information upon which an assessment could be made, the subcommittee requested that the agencies most directly involved with small business problems provide it with information, particularly data, which those agencies had or could obtain, that would best reveal the current condition of the small business sector in our economy. Much of the data was previously unpublished and was prepared specifically for the subcommittee hearings.

The Federal Trade Commission, the Bureau of Census, the Small Business Administration, and some small business organizations, particularly the National Small Business Association and the Small Business Legislative Council, provided the subcommittee with a great deal of economic data and information. That information, together with information compiled by the subcommittee, form the basis of this report.

Complete data and information concerning the status of small business is not available. In many cases, the subcommittee had to use the best sources available. In the case of the Government agencies, the subcommittee requested the agencies to determine the data that most effectively reflect the current condition of small business in America. Both the Federal Trade Commission and the Bureau of Census devoted significant efforts to the evaluation of existing data and to its presentation in a usable form. The subcommittee wishes to thank these agencies and their personnel for their efforts.

The Small Business Administration, with the encouragement of both congressional Small Business Committees, is in the process of developing a small business data base. We share the stated desires of those supporters of small business who seek to establish such a base. Yet, because it will require several years to establish the data base, the subcommittee believes it is important to evaluate, from the existing data, the current and future status of small business.

In the subcommittee's review of this available data, it found that much had already been collected, but not necessarily reported in a manner that is useful for its purposes. As is evidenced by the special tabulations made by the Bureau of Census and the Federal Trade Commission, this information can be presented in a meaningful way to describe the role of small business in the economy.

Each year the Senate Small Business Committee publishes an annual report which contains economic data and information concerning small business. Also, the Small Business Administration published a study last year concerning small business. While some of the data which are presented in this report are also available in these reports, the subcommittee has attempted to eliminate as much duplication as possible.

Since more information is available for large firms than for small firms, in some cases, it was necessary to look at the role of the large firms and to make inferences from that analysis concerning small business; for example, if the market power of large firms is increasing, it is probable that small businesses are being adversely affected by this increase. Where specific information concerning smaller firms exists, such as in the Federal Trade Commission Quarterly Reports, the subcommittee has relied on such information. In other areas, the subcommittee had no choice but to rely upon the information concerning large firms and based on this information to make interpretations of the implications for small business.

In the succeeding pages, data are presented concerning the sales, assets and profits of small business in the whole economy as well as in a number of individual industries. Also included are data on industry concentration and on the wholesaling and retailing aspects of small business. More detailed information and graphic presentations are found in the appendix to this report.

MANUFACTURING ASSETS AND THE DECLINE OF SMALL BUSINESS

As the following table clearly indicates, the period of 1950 to 1976 has shown a steady increase in the percentage of manufacturing assets controlled by the top 100 and top 200 manufacturing firms. The proportion of those assets controlled by the 100 largest firms increased from 39.7 percent to 47.6 percent with the maximum of 49.1 percent recorded in 1968. The 200 largest firms increased their market share from 47.7 percent to 60.0 percent with the maximum of 61.0 percent recorded in 1971. Beginning in 1973, this data series was changed to eliminate foreign assets owned by American firms. The post-1973 accounting methods show an increasing portion of assets being controlled by the largest 200 firms; 58.0 percent was recorded in 1976. The top 100 firms also increased their market share to 45.5 percent in 1976.

These data reveal a pattern of increasing market control being exercised by the largest manufacturing firms. Proportional market share of the largest manufacturing companies increased every year (with the exception of 1974) that the new accounting methods (post-1973) were employed. Testimony presented to this subcommittee was virtually unanimous in agreeing that this trend would continue unabated unless immediate and forceful steps were taken.

LARGEST MANUFACTURING CORPORATIONS—PERCENT SHARE OF ASSETS HELD: 1950 TO 1974

[Corporations ranked on value of assets in each year. Prior to 1969, excludes newspapers]

	1950	1955	1960	1965	1968	1969	1970	1971	1972	1973	1974	1975	1976
Corporation rank group:													
100 largest	39.7	44.3	46.4	46.5	49.1	48.2	48.5	48.9	[1]47.6	44.7	44.4	45.0	45.5
200 largest	47.7	53.1	56.3	56.7	60.8	60.1	60.4	61.0	60.0	56.9	56.7	57.5	58.0

[1] Data prior to 1973 are not comparable to later years due to changes in accounting methods based on exclusion of foreign company assets.

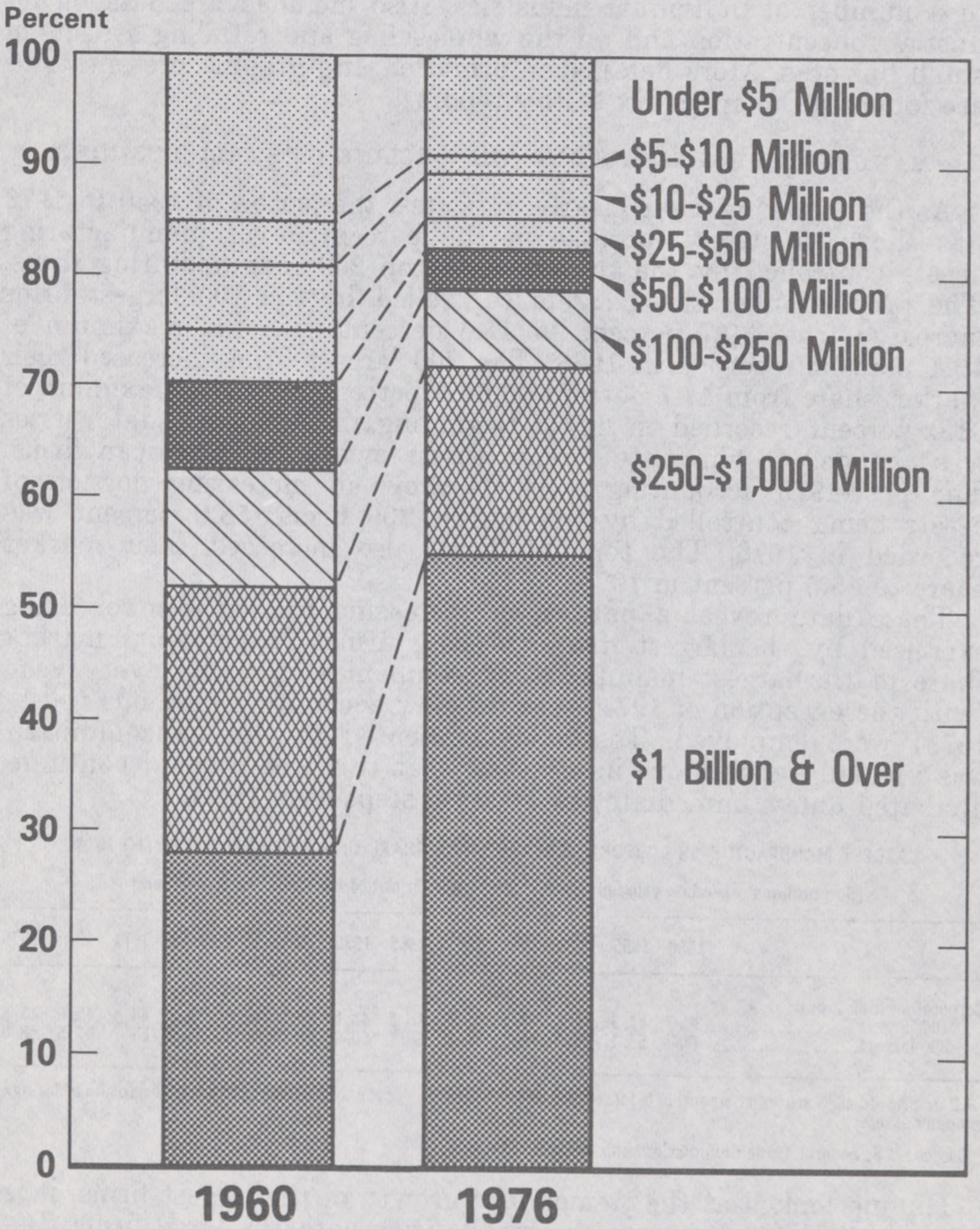
Source: U.S. Federal Trade Commission, unpublished data.

Having looked at the tremendous growth of the largest firms, it is also necessary to compare the small firms with the large firms. Because each year's data is in current dollars, caution is necessary in evaluating the conclusions. While a good deflator does not exist, testimony presented to the subcommittee clearly indicated that

much of the increase was due to increased concentration and not solely to inflation.

As the chart indicates, the largest manufacturing firms (with assets of $1 billion or more) showed a large increase in the concentration of manufacturing assets between the years 1960 and 1976. It should also be noted that all other sized firms, including the medium-sized business and especially the small firms, showed a decrease in percentage of assets held between 1960 and 1976.

Concentration of Total Assets for Manufacturing Corporations, 1960 and 1976



Source: FTC *Quarterly Financial Report*, for 1960 and for 1976.

House Small Business Committee Antitrust, Consumer and Employment Subcommittee

SALES AND THE DECLINE OF SMALL BUSINESS

Data presented to the subcommittee also shows a disturbing trend in the percentage of manufacturing sales controlled by the largest firms. For the reporting periods of 1963, 1967, and 1972 the smaller firms showed a steady decline in percentage of sales while the largest firms showed a healthy increase.

Information compiled by the U.S. Bureau of Census and listed below shows almost an 8 percent increase in percentage of sales controlled by the largest firms (i.e., firms with 10,000 employees or more) between the years 1963 and 1972. During this same period, those firms with less than 1,000 employees showed a 6.6 percent decrease in percentage of sales. (Figures were available only up to 1972. When the Bureau of Census publishes data for 1977, similar information will become available.)

PERCENT OF SALES BY EMPLOYER SIZE

Employer size	1963	1967	1972
0 to 100	15.7	13.7	12.6
100 to 250	7.6	6.8	6.1
250 to 500	5.7	5.5	4.9
500 to 1,000	5.8	4.9	4.6
1,000 to 2,499	7.5	6.7	6.9
2,500 to 4,999	7.2	6.4	6.7
5,000 to 9,999	8.8	8.3	8.7
10,000 and over	41.7	47.7	49.5
Total 1,000 and under	34.8	30.9	28.2

INDUSTRY CONCENTRATION AND THE DECLINE OF SMALL BUSINESS

The analysis of aggregate concentration—that is, concentration viewed from the perspective of the whole economy—is only one step in the process of assessing the impact of monopolization and oligopolization on small business. Each industry must be examined separately in order to gage accurately the effects of concentration on small business in detail. One method of determining where industry-by-industry concentration is increasing is to compare and to add concentration ratios for each particular industry for each year. In 1963, the average four firm concentration for all industries was 37.7 percent. By 1972, that figure had risen to 38.8 percent, In an industry where concentration is on the rise, it is probable that the small business sector of that industry is diminishing and its role is declining.

As Congressman Larry Pressler noted during the subcommittee's hearings on Antitrust Law Enforcement,[1] one industry where this trend has particularly ominous consequences is the newspaper industry. According to an article in *The Washington Post*, 170 companies now own approximately 60 percent of the Nation's 1,762 daily newspapers.

> Of total daily U.S. newspaper circulation of about 61 million, the 170 companies' papers account for more than 43.9 million, or 72 percent; of Sunday U.S. circulation of 51.6 million, the 170 companies had an even greater share of the total—40 million or 77 percent.[2]

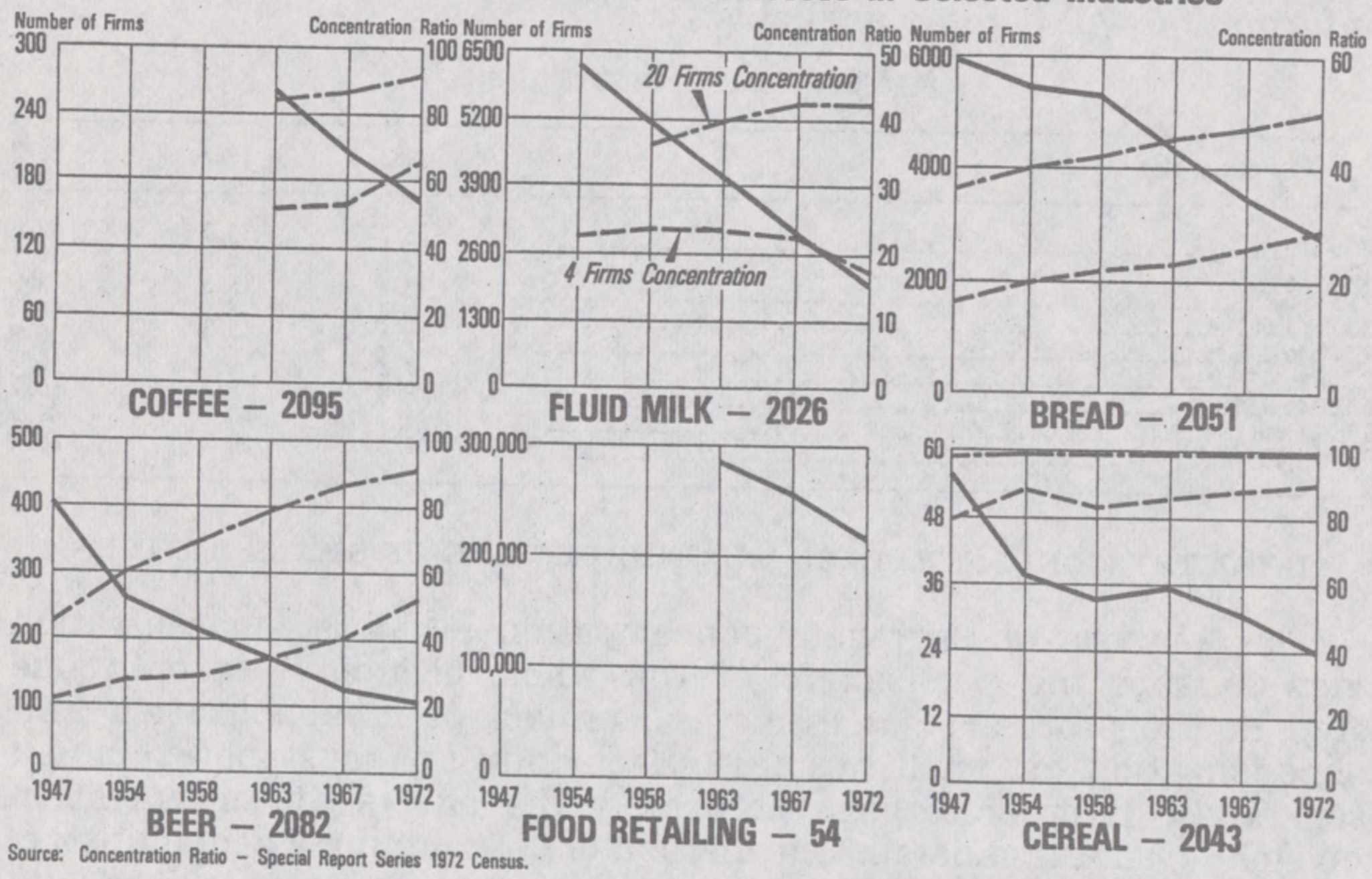
---

[1] Hearings before the Subcommittee on Antitrust, Consumers and Employment on Antitrust Law Enforcement, July 20, 1978.
[2] *The Washington Post*, July 24, 1977, p. G3, Col. 1.

It is clear that if this trend is not reversed, we may soon find ourselves in a situation where a small group of people control many national media outlets.

The following chart, prepared from U.S. Census Bureau data, illustrates concentration trends and ratios for six major industries. The unbroken lines represent the number of firms existing in the given industry while the broken lines indicate the 4- and 20-firm concentration ratios. An analysis of the chart reveals a decrease in the number of firms for every industry and an increase in the concentration ratio. Again, testimony presented during these hearings supports the conclusion that this trend will continue unless preventative measures are taken.

Concentration and the Decline of Small Businesses in Selected Industries



Source: Concentration Ratio – Special Report Series 1972 Census.

WHOLESALING

Thus far the analysis presented in this report has focused on the manufacturing sector. In that sector, abundant information is available; this is not the case with wholesaling. Until recently, the Federal Trade Commission did not maintain data on wholesaling; to date, the only information on wholesaling published by the FTC is percentages of assets. That information indicates that small businesses (firms with below $10 million in assets) maintain over 50 percent of all wholesaling assets. The billion-dollar firms control 18 percent of wholesaling assets. Not included in these data are retail firms that maintain their own in-house wholesaling operations.

Given the fact that the FTC has been collecting data on wholesaling for a few years only, no comparisons can be made with earlier years.

COMPOSITION OF THE FTC–SEC SAMPLE, BY TOTAL ASSETS AND SALES OF ALL WHOLESALING CORPORATIONS, 4TH QUARTER 1976

Asset size	Total assets (millions)	Percent of total assets [1]	Number of firms in sample
$1,000,000,000 and over	$29,977	18	45
$250,000,000 to $1,000,000,000	9,914	6	64
$100,000,000 to $250,000,000	10,720	6	157
$50,000,000 to $100,000,000	11,045	7	285
$25,000,000 to $50,000,000	14,862	9	612
$10,000,000 to $25,000,000	92,503	55	1,715
$5,000,000 to $10,000,000	169,021	100	2,878
Under $5,000,000			
All asset sizes			

[1] Figures are rounded and will not necessarily add to totals.

Source: Quarterly financial report, 4th quarter 1976, tables 7, K–1, and K–2.

RETAILING AND THE DECLINE OF SMALL BUSINESS

Although information on retailing is somewhat scarce, the retailing sector displays the same trend towards concentration indicated in the manufacturing sector: the big are becoming bigger.

Because of the shift in product lines that are sold in the retail industry (that is, retail food chains selling appliances, general merchandise, pharmaceuticals, etc.) reliable statistics on retail concentration are difficult to obtain. There are indications, however, of what is occurring overall, regardless of individual trends in individual industries. Sales by retail establishments with 101 or more units indicate that the percentage of the total retail sales dollar of these establishments is increasing rapidly. The table below is illustrative of this increase.

Percent of total retail sales by establishments with 101 or more units	
1948	29. 6
1954	30. 1
1958	33. 5
1963	36. 6
1967	39. 8
1972	44. 0

Source : Statistical Abstract of the United States, 1976.

This trend is also indicated by an analysis of *Fortune*'s 50 largest retail company sales. In the short period from 1971 to 1976, the sales of these companies rose from $80 billion to $132 billion; these figures translate into percentages of 24.2 percent for 1971 and 25.6 percent for 1976.

At the request of the subcommittee, the Federal Trade Commission prepared a special analysis of retail trade for 1977; this analysis is presented in the following Federal Trade Commission table. As the table indicates, the 50 largest retail companies control 25 percent of all retail sales in the United States and 31 percent of all retail trade profits along with 32 percent of all retail assets. Firms with under $10 million in assets account for 50 percent of sales and 50 percent of profits.

U.S. Bureau of Census chart 4a illustrates retail sales by employment size. According to this compilation of retail data, firms with over 100 employees increased their share of retail sales from 32 percent in 1963 to over 40 percent in 1972. These percentages lead to the conclusion that "mom and pop" type stores have been declining in number while the larger firms with over 100 employees have been increasing their share of the market.

Several of the witnesses who appeared before the subcommittee testified on conditions in particular retail industries; information on these particular areas may be found in the appendix.

RETAIL TRADE, 4TH QUARTER 1977

[Dollar amounts in millions]

Asset sizes	Number of corporations in sample	Sales (less excise taxes)		Net income after taxes		Total assets	
		Amount	Percent	Amount	Percent	Amount	Percent
All asset sizes	2,063	$158,457	100	$4,426	100	$190,300	100
$1,000,000,000 and over	15	23,420	15	942	21	41,592	22
$250,000,000 to $1,000,000,000	36	15,493	10	436	10	18,227	10
$100,000,000 to $250,000,000	79	10,011	6	329	7	11,977	6
$50,000,000 to $100,000,000	98	5,642	4	164	4	6,666	4
$25,000,000 to $50,000,000	169	5,331	3	163	4	6,062	3
$10,000,000 to $25,000,000	286	6,810	4	179	4	6,948	4
$10,000,000 and over	683	66,706	42	2,213	50	91,473	48
Under $10,000,000	1,380	91,751	58	2,213	50	98,828	52

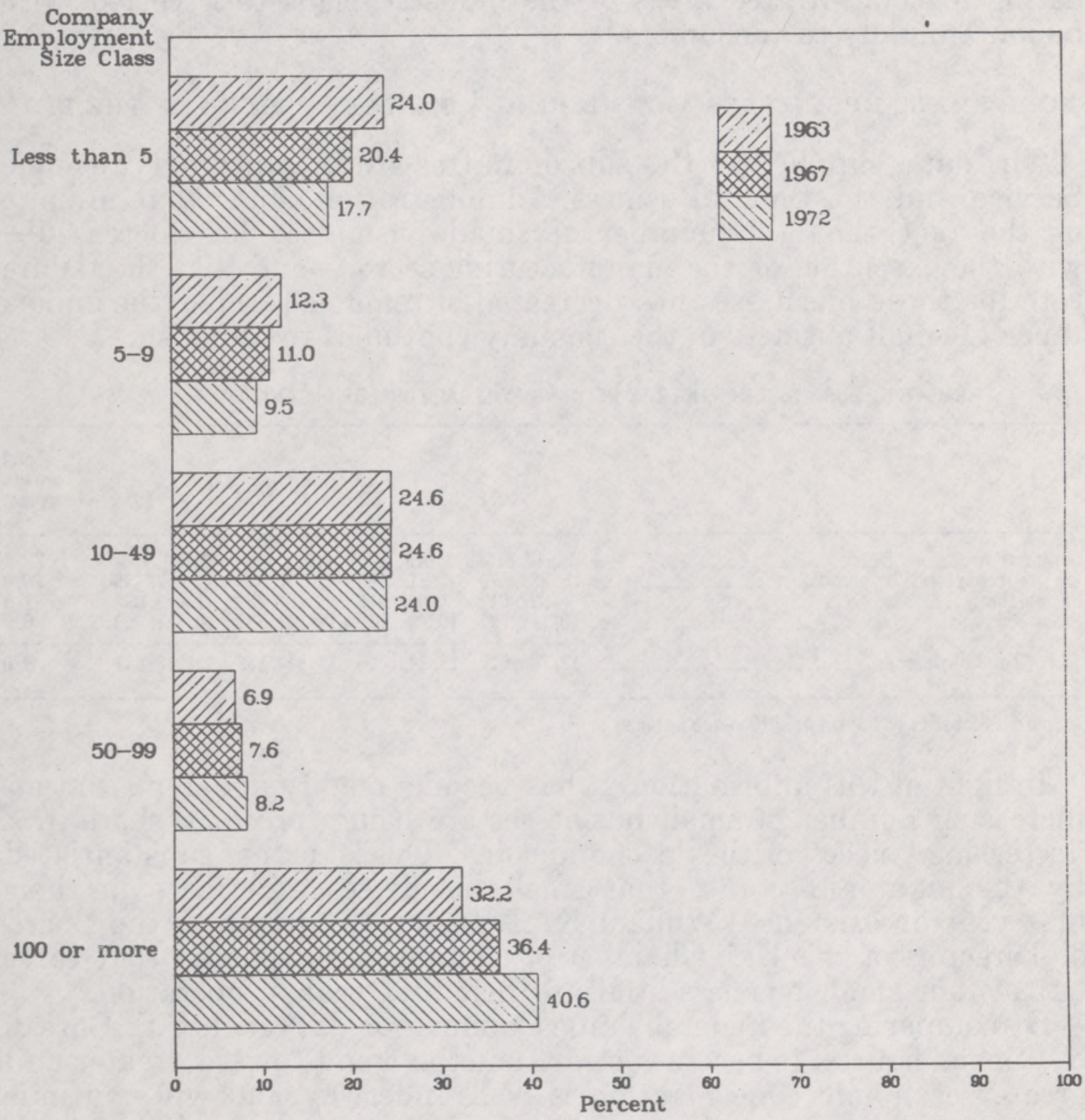
Source: FTC, Bureau of Economics, unpublished data.

RETAIL TRADE

4a

Sales by Employment Size Class:

1963, 1967, and 1972



Source: 1963,1967, and 1972 Enterprise Statistics

THE DECLINE OF SMALL BUSINESS: THE COST TO CONSUMERS

All of the data and testimony presented before the subcommittee during its hearings on the Future of Small Business in America leads to one undeniable conclusion: The role of small business in our economy is declining at an alarming rate. As the number of small businesses in industries declines and the concentration ratios increase, the continuing viability of small firms is severely threatened. This increase in concentration also imposes a heavy burden on an already battered consumer. Charles Mueller, Editor of the *Antitrust Law and Economics Review*, estimates that overcharges flowing from the

monopolized one-third of the U.S. economy amount to approximately $175 billion per year or 9.2 percent of the gross national product.[3] Additional support for this figure was given by Prof. Willard K. Mueller and Fred Scherer, both former chief economists for the Federal Trade Commission. In the area of food retailing alone, Professor Mueller estimated a 1-percent increase in food prices originating in concentrated areas of the industry leads to a cost of $1.5 billion annually to consumers.[4]

MORE SMALL BUSINESSES ARE SHARING A SMALLER "PIECE OF THE PIE"

The data, supplied to the subcommittee by the Internal Revenue Service and the Small Business Administration, show that in spite of the fact that the number of small businesses has increased—with the exception of the manufacturing sector—and that the failure rate for those businesses has decreased or remained stable, the importance of small business in the economy continues to diminish.

NUMBER OF BUSINESSES FILING TAX RETURNS BY LEGAL FORM OF ORGANIZATION, 1972–75

	1972	1973	1974	1975	Total growth (percent)
Corporations	1,540,815	1,823,335	1,978,059	2,021,778	23.8
"Subchapter S" corporations	283,679	313,080	330,418	357,435	20.6
Partnerships	992,012	1,037,911	1,062,282	1,073,094	7.5
Proprietorships	10,172,792	10,482,160	10,873,822	10,881,969	6.5
Total businesses	12,705,619	13,343,406	13,914,163	13,976,841	9.0

Source: Statistics of the Internal Revenue Service.

In light of this information, it has become readily apparent that an increasing number of small businesses are being forced to share in a decreasing "piece" of the "economic pie." This is further substantiated by the high failure rate that small businesses experience in their first year of existence. William K. Eastham, Chairman of the Board of Directors of the U.S. Chamber of Commerce, estimated that three out of four small businesses fail in their first year of operation.[5]

By comparing the Federal Trade Commission data with U.S. Bureau of Census figures, it becomes clear that the trend toward greater and greater economic concentration is well underway and will continue without direct intervention by the Government; the subcommittee knows of no action, be it governmental or otherwise, that has altered this trend during the years from 1972 to 1977.

The bleak future which the data predict for small business and the trends towards its diminishing importance were topics of in-depth discussion on the part of numerous witnesses testifying before the subcommittee. Yet, many leaders of the small business community also noticed a sense of optimism existing among individual entrepreneurs. As noted by John Lewis, president of the National Small Business Association:

---

[3] Hearings, pt. 2, p. 15.
[4] Ibid., p. 92.
[5] Hearings, pt. 1, p. 254.

> . . . the small business community is indeed the strength and vigor of our economic system. Given the proper incentives and economic environment, the small business grows and prospers, providing jobs, innovations, and the flexibility to adapt to changes dictated by the free marketplace, and in all of these, provides a benefit to the community and Nation as well.[6]

The subcommittee believes that by focusing the proper attention on small business problems and by taking the steps necessary for meeting the particular needs of the small business community, the extinction of that community will no longer be a potential reality.

---

[6] Hearings, pt. 1, p. 54.

Chapter 5.—Problems Facing Small Business

Testimony presented at the hearings on the Future of Small Business in America covered a wide range of problems that particularly affect the small business community. The following problem-by-problem analysis is by no means exhaustive but covers those areas identified by the witnesses as being of major concern to small business.

ADVERTISING'S EFFECT ON SMALL BUSINESS

Testimony before the subcommittee indicated that in 70 consumer product industries (i.e., canned goods and other grocery products) the number of companies declined in two-thirds of those industries during the period from 1947 to 1977. Over 80 percent of these industries where these declines occurred were industries in which there were heavy advertising and extensive product differentiation. The total number of firms in these 70 consumer product industries fell from 49,901 in 1947 to 37,700 in 1972.[1]

As these 12,000 small firms went out of business, the concentration ratios in these industries increased from an average of 35.7 percent in 1947 to 41.8 percent in 1972. In the industries with high product differentiation and heavy advertising, the rise was more dramatic—from 47.7 percent to 60.6 percent.[2] The following charts, prepared by Prof. Willard Mueller, compare the increases in concentration ratios and the decline in the number of firms for (1) all industries, (2) consumer product industries, and (3) industries with various degrees of advertising.

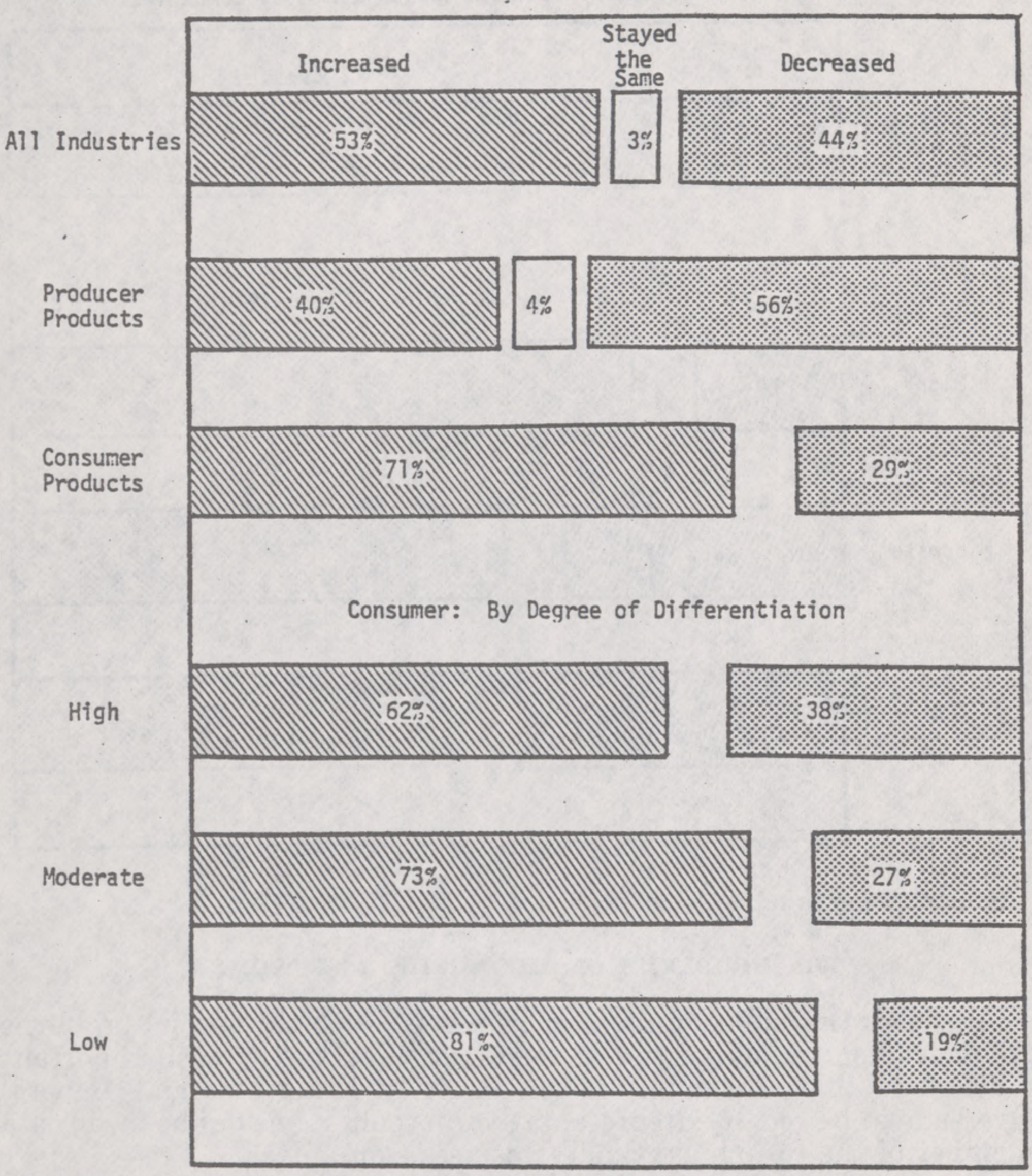
A review of the concentration data indicates that television advertising and its extensive use by large firms are one major aspect of the problem. Concentration ratio averages for over 70 different industries support the conclusion that advertising is one cause of the demise of small business in many industries.

---

[1] Hearings, pt. 2, p. 81.
[2] Ibid, p. 78.

Chart 1

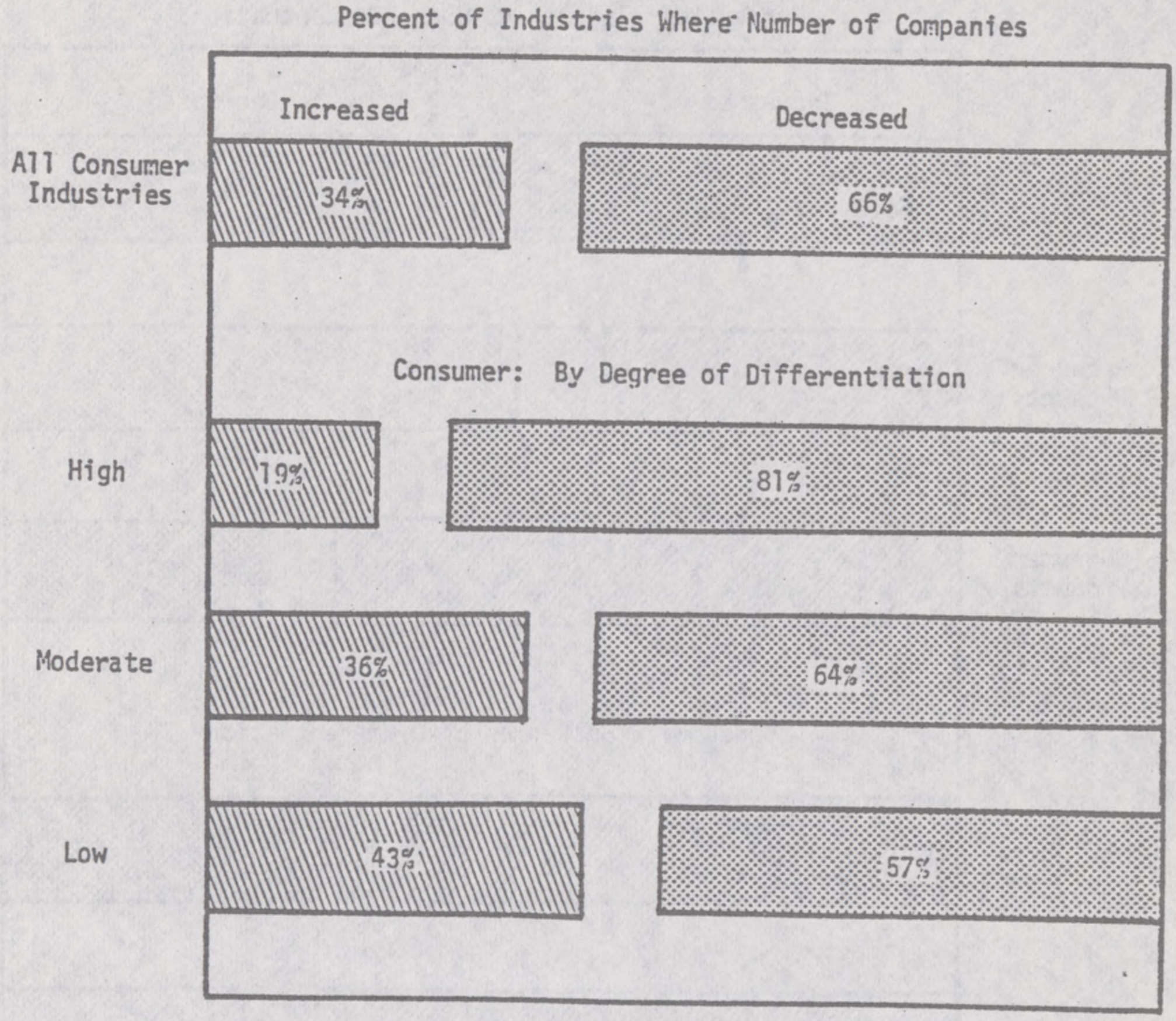
Change in Four-Firm Concentration in 167
Manufacturing Industries, by Type of Industry, 1947-1972



Source: Over table 1.

CHART 2

Change in Number of Companies in 70 Consumer Product Industries by Degree of Differentiation, 1947-1972



Source: Same as table 1.

THE PROBLEMS OF MINORITIES AND WOMEN

Although this subcommittee is concerned with the special problems facing women and minorities, it defers jurisdiction over such important matters to the Subcommittee on Minority Enterprise and General Oversight, chaired by Representative Joseph P. Addabbo, who is a member of the full House Small Business Committee.

SMALL BUSINESS: A MAJOR VICTIM OF INFLATION'S "SQUEEZE"

Inflation is, perhaps, the greatest problem facing our economy as a whole, yet it has particularly devastating effects on small business. Due to the critical capital needs that constantly face the small business, inflationary trends not only exacerbate this need, but also increase the costs of meeting it. James McKevitt, the Washington counsel for the National Federation of Independent Businesses, focused on this problem in his testimony before the subcommittee:

> The second major problem caused by inflation is cash flow. To illustrate its importance let me point out that approximately one of two small businesses borrows regularly. Much of that borrowing would occur regardless of the infla-

tion rate. However, inflation takes a difficult problem and makes it often acute because inflation not only heightens the extent of cash needed, but also requires its financing at higher rates. This situation is particularly devastating in firms with relatively high inventory and low turnover.[3]

Small business is also caught in the price squeeze induced by inflation. Costs for materials, supplies, and wages are constantly being pushed upward by the inflationary spiral and the only hope for recovery of these costs is to pass on price increases to consumers. Yet, due to the competitive position in which the small business often finds itself, these price increases are resisted and this in turn tends to worsen the small business's tenuous market position. Thus, the ability of big businesses to absorb the increased cost of goods and services resulting from inflation leads to a strengthening of these firms' competitive position and status in the market.

THE BURDENS IMPOSED BY FEDERAL REGULATORY POLICIES ON SMALL BUSINESS

While there was general agreement among the witnesses appearing before the subcommittee that the Federal Government does have legitimate regulatory concerns in such areas as safety and health, these witnesses also noted the failure of Federal agencies to assess properly the economic impact of their regulations on small business. The National Federation of Independent Businesses (NFIB) publishes a Quarterly Economic Report for Small Business which consistently singles out Government regulation and redtape as one of the top three problems facing small businesses.

The Commission on Federal Paperwork estimates that small businesses spend approximately $15 billion per year on paperwork imposed on them by various Federal agencies.[4] This dollar figure further compounds the critical capital shortage mentioned in the analysis of inflation.

Testimony presented before the subcommittee also pointed to the disproportionate share of the regulatory impact which small business must bear. It has neither the financial nor the human resources available to big business to examine, understand and fully comply with the precise obligations imposed by the regulators. Thus, this also exposes the small business to a greater risk of fines and penalties for violation of rules and regulations it may never fully understand.

The regulatory bind which the small business sector is in has not been fully recognized by the Federal Government. While there are examples of regulatory and administrative schemes which consider the substantive differences between the small and large business,[5] the majority of regulatory actions taken by the Federal agencies fail to take these differences into account.

Another point emphasized at the hearings was the cumulative effect of regulations imposed by various governmental bodies. Duplicative and often conflicting requirements are imposed on businesses by agen-

---

[3] Hearings, pt. 1, p. 34.
[4] Commission draft dated July 20, 1977, p. 22.
[5] E.g. Toxic Substances Act (Public Law 94-469) which exempted small businesses from some of the reporting and record-keeping requirements.

cies at the Federal, State, and local levels. Thus, when examining the burden of regulations, it is necessary to consider the combination of all regulations as impacting on the small business community.

TAXATION AND CAPITAL FORMATION

A critical problem which any small business must face is the continuous need for capital. The small businessman often does not have access to the conventional sources of capital and is consequently put at a severe disadvantage in establishing or expanding a business. The Subcommittee on Access to Equity Capital and Business Opportunities, chaired by Congressman John J. LaFalce, held a series of hearings on two bills (H.R. 9549 and H.R. 12666) introduced in the House of Representatives which are designed to help meet this capital shortage.

In January of 1977, the Small Business Administration Task Force on Venture and Equity Capital for Small Business, headed by former Securities and Exchange Commission Chairman William Casey, examined this problem and concluded:

> It is a matter of acute concern that, in the face of clearly emerging needs and the documented benefits to the U.S. economy, a set of impediments have developed that are preventing smaller businesses from attracting the capital without which they cannot perform their traditional function of infusing innovation and new competition into the economy. Unless these impediments are overcome, the ability of the economy to compete in the world and meet the needs of the American public will be seriously eroded. It is alarming that venture capital for new and growing small business has become almost invisible in America today.[6]

While the large firms have ready access to the public securities market as a source of capital, the public taste for "new issues" has clearly dissipated. In 1969, investment bankers took 548 small businesses public for the first time and raised almost $1.5 billion in new capital. By 1977, this figure had dwindled to $110 million and the number of firms involved was down to 29.[7]

Another problem faced by the small business sector is the inability to borrow money to meet its capital needs. Due to the greater risk factors involved with the new or small business, the lack of adequate collateral and the cheaper costs of making larger loans, the small business is often completely shut off from the banks and other credit suppliers in times of "tight" money markets. In those instances where the small business can borrow money, it must often pay higher interest rates than its larger competitors.

Compounding these basic credit problems are the inequities of the tax code which often discriminates against the small business. Testimony presented to the subcommittee focused on three major areas of the tax code which severely hindered the growth of small business:

(1) Lack of a graduated corporate income tax

As mentioned above, the small business often has difficulty meeting its capital needs and usually must rely on its own profits for growth

---

[6] Study cited in testimony of Arthur Burck before the Subcommittee on Antitrust, Consumers and Employment Hearings on Antitrust Law Enforcement.

[7] Ibid.

and expansion. The present tax code, however, makes no recognition of the differences between the large and small corporation in applying the tax rate. Thus, the large business, which has access to capital from sources other than its own profits, is given a distinct competitive advantage. A solution to this inequity was proposed by Chairman Smith by the introduction of H.R. 12692 which would establish a 7-tier graduated corporate income tax. One hundred and thirty-four other House Members, including most Members of the House Committee on Small Business, subsequently expressed their support by cosponsoring this measure. Due largely to this expression of support, a graduated tax was included and this inequity has been recognized by the Revenue Act of 1978 (H.R. 13511) which passed the House of Representatives and the Senate. Every member of the Subcommittee on Antitrust, Consumers and Employment supported this legislation. Under the terms of the bill, the graduated corporate income tax schedule would be:

Taxable income:	*Tax rate (percent)*
$1 to $25,000	17
$25,001 to $50,000	20
$50,001 to $75,000	30
$75,001 to $100,000	40
Over $100,000	46

(2) Excessive capital gains tax

Excess taxation of capital gains was also seen as a major factor in the reduced flow of capital to smaller firms. Taking into consideration the high risks involved with new or small businesses, there was general agreement among the witnesses that tax incentives were necessary to encourage investments in these areas.

Also to be considered is the effect which an excessive capital gains tax rate has on the supply of entrepreneurs. Arthur Burck, president of Arthur Burck, Inc., emphasized this point and concluded:

> These improvident tax changes not only drive investors away from the market but also shrink the supply of entrepreneurs, present and future. With respect to present entrepreneurs when they reach the point where they need to "cash out" or achieve liquidity, the tax laws push them into mergers with corporate giants having quality blue-chip stocks for tax-free exchanges that avoid the confiscatory capital gains taxes. In this way, entrepreneurism becomes shackled by the bureaucracy that is inherent in bigness.
>
> The supply of future entrepreneurs is also curbed by the reshuffling of incentives that resulted from tax changes. At one time, ambitious employees of large firms had incentive to leave and start up their own businesses. Income taxes on salaries then reached 70 percent, and even 90 percent in the early postwar years; by contrast, 25 percent was the maximum gains tax on their company's growth. However, in recent years while the Federal gains rate was almost doubled, the maximum rate on salaries was reduced to 50 percent. Consequently, under current tax alternatives, there is little incentive to leave the shelter of large companies where in recent years salaries have skyrocketed—over 1,000 executives are now paid a package exceeding $500,000 a year and many get more. Why leave such security to gamble every-

thing, and then if one succeeds, face a capital gains tax about the same percentage? And so Steven L. Merrill, president of the Bank America Capital Corp., observes: "Not only does excessive capital gains taxes impact the returns to investors but, more importantly, has almost eliminated any incentive for entrepreneurs."[8]

Once again, the Revenue Act of 1978 (H.R. 13511) recognizes the need for change in this area. The bill, as passed by the House of Representatives, makes reductions in the maximum tax as applied to capital gains and is designed to spur critically needed investments in high-risk areas. A targeting of preferential treatment of capital gains specifically for investments in small business would even more greatly increase the potential flow of capital into this sector.

(3) The ability of big business to take advantage of tax shelters

Leaders of the small business community voiced considerable criticism of the framework of the tax code and the ability of big businesses to take full advantage of its shelters. For example, while the Foreign Tax Credit (FTC) and the Investment Tax Credit (ITC) are available to both large and small firms, the major portion of their benefits went to large firms. In the case of the FTC, 97 percent, or $20 billion, went to only 1,300 firms, or less than one-tenth of 1 percent of all U.S. corporations; with regard to the ITC, 66 percent, or $2.7 billlon, went to these firms.[9]

These leaders also noted the 1976 Annual Corporate Tax Study released by Congressman Charles Vanik,[10] showing that the effective tax rate for the major corporations examined had been reduced almost 8 percent from the previous year and that numerous multi-billion-dollar firms had completely escaped paying any effective Federal corporate income tax. This conclusion was further substantiated in testimony received by the subcommittee from James Folsom, Deputy Director of the Bureau of Economics at the Federal Trade Commission. Folsom's testimony revealed that the billion-dollar-plus corporations had lower effective tax rates than their smaller competitors.[11]

Beyond the inherent inequities of the tax code, which favor the large firm, the inability of small businesses to have access to sophisticated tax lawyers also prevents such endeavors from taking full advantage of those provisions intended for their benefit.

MONOPOLIZATION AND ANTITRUST LAWS[12]

Small business leaders who testified before the subcommittee were emphatic in their belief that the Federal Trade Commission and the Antitrust Division of the Department of Justice are not adequately enforcing the antitrust laws and are, thereby, severely limiting the ability of small businesses to compete effectively in the marketplace. Specifically noted was the failure of the Federal Trade Commission to adequately enforce the Robinson-Patman Act, a statute which these

---

[8] Testimony of Arthur Burck before the Subcommittee on Antitrust, Consumers and Employment, Hearings on Antitrust Enforcement.
[9] Hearings, pt. 1, p. 35.
[10] *Congressional Record*, Vol. 124, No. 6, Jan. 26, 1978.
[11] Ibid., p. 12.
[12] For a comprehensive examination of this subject see Hearings before the Subcommittee on Antitrust, Consumers and Employment, Antitrust Law Enforcement, July 20, 25, 26, and 28, 1978.

leaders believe was particularly designed to protect the small business community. Compounding this problem are difficulties that stem from a lack of statutory tools that are needed to meet situations not covered by the existing antitrust laws; as noted in a recent article in *The Washington Star:*

> The administration's top antitrust officials are become increasingly willing to admit there's not very much they can do to stop the current wave of mergers—despite their concern for the consequences. The answer, they say, lies with Congress.[13]

Without an effective antitrust enforcement policy, the ever-widening gap between small and large firms will continue to increase. A detailed and in-depth analysis on the status of competition in every industry, similar to that undertaken by President Franklin Roosevelt's Temporary National Economic Commission (TNEC), is beyond the abilities of this subcommittee. While President Carter has recently appointed a national Commission to study antitrust law and litigation procedures, this falls short of the comprehensive analysis necessary to evaluate fully these problems.

Summing up the problem, A. Vernon Weaver, Administrator for the Small Business Administration, stated:

> The trend toward concentration in given industries should be slowed, and enforcement of the antitrust laws be pressed more rigorously, if the trend toward bigness is to be reversed or even slowed. . . . Small firms have a substantial role to play in the smooth functioning of our market system. In a free market economy, maximum efficiency is achieved when the market determines the allocation of resources. However, the process is delicate and must be carefully guarded because it can be altered by firms with substantial market power, or by market institutions which do not function properly.[14]

FARMING, RURAL AMERICA, AND SMALL BUSINESS

In analyzing the problems of small business, recognition should be given to the commonality of interests that exists between the farmer and other small businesses; of course, inseparable from this commonality of interests is the fact that most small businesses are subject to similar problems.

Many legislative and administrative policies extend some recognition to the congruence of interests and problems that exist between these two entities, and recognize that small farmers are small businesses and that all sectors of the small business community consititute a vital and competitive factor in the well-being of the American economy. But this recognition must be expanded; for just as non-agricultural small business has been the victim of governmental neglect and under-utilization, the farming and rural areas of our Nation have, more often than not, received a disproportionate amount of attention compared to that accorded to our metropolitan, urban areas.

The subcommittee also recognizes the fact that any attempts to enhance the development of our rural areas requires a strong and viable small business community for it is this sector which constitutes the foundation of our non-urban areas.

---

[13] *The Washington Star*, Aug. 13, 1978, p. A-14.
[14] Hearings, pt. 1, p. 157.

Chapter 6.—Economists Look at the Future of Small Business in America

The subcommittee's major objective in holding these hearings was to obtain a truly comprehensive view of the present and future status of small business by drawing on every available resource; obviously, this objective could not be accomplished without first consulting those men and women whose working lives are devoted to diagnosing the complex ills that beset the modern American economy and to prescribing the proper remedies to those ills—the professional economists. In this regard, the subcommittee heard testimony from an impressive panel of witnesses whose individual records in the field of economic analysis are without equal.[1] John Kenneth Galbraith, professor emeritus of economics at Harvard University, and Willard K. Mueller, vilas professor of agricultural economics at the University of Wisconsin, Madison, appeared before the subcommittee on May 17, 1978. Professor Galbraith's testimony was particularly interesting to the subcommittee: In his "Economics and the Public Purpose," the former U.S. Ambassador to India espoused a rather low opinion of the antitrust laws as an effective tool in dealing with the problems of economic concentration, but, before the subcommittee, he reversed himself and advocated a strengthening of the laws in order to combat the current trend toward the concentration of market power in the hands of fewer and fewer giant corporations. On May 18, 1978, Walter Adams, professor of economics and the former president at Michigan State University, appeared before the subcommittee. Charles Mueller, the editor of the *Antitrust Law and Economic Review*, appeared before the subcommittee to offer his testimony on the economics of small business.

THE STRUCTURE OF THE AMERICAN ECONOMY

Before an adequate understanding of the particular problems that face the small business community now and in the future can be gained, the context or climate in which small businesses exist and function must be analyzed; in orther words, before the impact on small business of inflation, unemployment, the tax structure, regulatory policies and the like can be assessed, the structure of the American economy must be grasped. For our purposes, this will mainly involve the delineation of the differences between the large firm and the small firm.

In his testimony before the subcommittee, Professor Galbraith characterized the modern American economy as a "bimodal structure." [2] One part of this structure is composed of a small number of

---

[1] The subcommittee attempted to assemble a panel of economists that would reflect the entire spectrum of opinion on matters of social and economic policy. Invitations to testify before the subcommittee were extended to Milton Friedman of the University of Chicago, Arthur Okun of the Brookings Institution, Paul A. Samuelson of the Massachusetts Institute of Technology, Walter Heller, former Chairman of the Council of Economic Advisors, and Charles L. Schultze, the present Chairman of the Council of Economic Advisors. These men were unable to testify.

[2] Hearings, pt. 2, p. 32.

firms of very large proportions; these firms, according to Galbraith, comprise half of the private sector and account for half of the total private product.[3] It should also be noted that the large labor unions, whose power is only matched by their corporate counterparts, are also found in this sector.

James Folsom, Deputy D'rector of the Bureau of Economics at the Federal Trade Commission, provided the subcommittee with data which show the growth of firms in this part of the economy. In 1960, there were 141 firms with assets of $250 million; they controlled 52 percent of all manufacturing assets. By 1976, their number had increased to 466 firms which controlled 72 percent of all manufacturing assets. In that same year, there were 162 firms with assets of $1 billion and they controlled 55 percent of all manufacturing assets.[4]

This part of the economy, which, for the most part, includes the manufacturing and air transportation industries, is highly concentrated with monopolistic and oligopolistic elements. This aspect of this part of the economy provides the large firms in it with a great degree of economic power. The large enterprise wields substantial control over its prices and costs and this, in conjunction with its extensive advertising apparatus and its bureaucratic infrastructure, enables it to maintain a relatively secure market position.

As to the size of this highly concentrated part of the economy, Charles Mueller disagreed with Professor Galbraith's estimate and asserted that approximately one-third of our Nation's economy is subject to the rule of monopolistic and oligopolistic forces.[5]

The remaining part of the economy, representing one-half of the economy in Professor Galbraith's estimation and two-thirds in Charles Mueller's, is comprised of small firms.

In his testimony before the subcommittee, Charles Mueller provided data that illustrate the size of the businesses that populate this part of the economy:

> In 1971, for example, there were 12.4 million business enterprises of all sizes and kinds in America, including 3.3 million farms. Of that 12.4 million total, however, over half of them (6.4 million) had gross sales of less than $10,000! Another 3.4 million failed to reach $50,000 in sales and still another 1 million got only as high as $100,000 in yearly sales. Altogether then, nearly 11 million of the Nation's 12.4 million firms—87.2 percent—had sales of less than $100,000 that year.[6]

Because of their size, small firms do not possess the measure of economic power that large firms do. The large firm can, to a great extent, insulate itself from the full impact of external market forces, while the small firm is completely subject to those forces. This part of the economy—the small business sector, that is—is, therefore, the real locus of competition and free enterprise.

The small firm's lack of economic power prevents it from exerting any substantial control over its prices and costs; its returns, therefore, are far less secure than those of the large firm. And unlike the large

---

[3] Op. cit.
[4] Hearings, pt. 1, p. 11.
[5] Hearings, pt. 2, p. 14.
[6] Hearings, pt. 2, p. 4.

firm which has huge resources of capital at its disposal, the small firm is often unable to secure the capital it needs to improve its operations from either the lending institutions or its own returns.

INFLATION: IT HITS SMALL BUSINESS FIRST AND HARDEST

Economists tend to argue and to disagree among themselves as much as any other group of professionals, but few would challenge the proposition that the twin problems of inflation and unemployment constitute a major threat to the stability of the modern American economy. The crux of this matter for the Nation's policymakers and the Nation's businesses is the question of how to control inflation without creating intolerable levels of unemployment.

Our current difficulties with inflation originated in the late 1960's and grew worse in the early years of the present decade. Since 1975, the rate of inflation has remained locked within the 6- to 6½-percent range and unemployment has not dipped below a similar level. The current inflation is not a classical demand-pull inflation where high levels of real demand actually pull prices up to comparable levels. "The current inflation," according to Walter Adams, "is a cost-push inflation, fueled by an unchecked price wage spiral, reflecting deep-seated structural imperfections in the economy." [7]

Although inflation imposes the same burdens on the small business as it does on the large business, the weight of those burdens is far greater for the small business given its limited means for absorbing the impact of ever-increasing costs and prices. Moreover, the small business is often the casualty of the very policies that have been used to combat inflation. In the recent past, monetary policy has been the primary weapon in the attack on inflation: by raising interest rates, loans and consequently spending are restricted; as a result, the flow of money in the economy is reduced and costs and prices reflect this reduction. Yet, by sealing off sources of credit, monetary policy, in effect, cripples the small firm. Small business is not only burdened by the problem of inflation; it is often a hapless victim of the means used to eliminate it. Professor Galbraith summarized the situation in this manner:

> The initial effect (i.e. of monetary policy) is obviously on those who borrow money. The industries that depend on borrowed money are characteristically the small firms . . . Credit is generally vital for the small firm. So it is the small firm that is hit first and hardest by monetary policy. And being small and subject to the market, such firms cannot pass the higher interest costs of money on to their customers. The large corporations, in contrast, are far more likely . . . to have resources from their own earnings. And if they must borrow, they can use their market power to pass the higher costs of money on to the public. And, needless to say, it is always the first in line at the bank. I must say that one of the mysteries of our time is how readily and completely small business and its representatives have been gulled into the acceptance of monetary policies that could not be more precisely designed to do them damage.[8]

---

[7] Hearings, pt. 2, p. 108.
[8] Hearings, pt. 2, p. 34.

What alternatives to monetary policy do we have at our disposal in coping with inflation? In his testimony before the subcommittee, Walter Adams singled out several programs administered by the Government which, in effect, add nothing but fuel to the fires of inflation; one such program is the trigger price system for the steel industry, a program in which "the Government itself provided the indispensable mechanism for validating inflationary price increases engineered by a basic industry." [9] Adams urged policymakers to eliminate such mechanisms and to dispense with appeals to labor and management to show restraint in wage and price increases. He went on to advocate that policymakers look to the forces of the competitive market as the best means for combating inflation. Professor Galbraith favored the use of fiscal policy in the form of either higher taxes or restrained public expenditure as the most favorable anti-inflation policy for small business. He also suggested the implementation of a policy of direct intervention with regard to prices and wages and added:

> Any logical system of direct controls would be confined to those prices and incomes where there is substantial market power—it is only needed where restraint operating through the market, does not serve, which is to say where corporate, union and other organized power is great. So it would exempt the smaller business firm.[10]

Charles Mueller, in his testimony before the subcommittee, cited the existence of powerful monopolistic and oligopolistic elements within the economy as a primary cause of our inflationary woes; according to Mueller, the "overcharges" that originate with these elements in our economy "amount to 9.2 percent of the GNP or, in current dollars, at about $175 billion per year." [11] Mueller, therefore, advocates the use of tough antitrust law enforcement as one means of eliminating the sources of inflation in our economy.

ECONOMIC CONCENTRATION: THE NEMESIS OF SMALL BUSINESS

Every economist who appeared before the subcommittee singled out the current galloping trends toward economic concentration and increased acquisitions and mergers as the problem facing small business in need of congressional attention. These trends signal nothing but the continued growth of monopolistic forces in our economy, and, as has been noted previously, those forces are often the culprits behind unemployment, inflation, and a host of other economic problems.

With big business increasing its share of the market at such a rapid pace, it is clear that small business, as a result, suffers a substantial diminution of its importance. As Charles Mueller put it: "The implication is clear: Since big business is steadily increasing its share of the Nation's economic activity, the share left to small business is necessarily dwindling." [12] How do we counter and perhaps reverse the

---

[9] Hearings, pt. 2, p. 157.
[10] Ibid., p. 35.
[11] Hearings, pt. 2, p. 15.
[12] Ibid., p. 4.

trend and insure the future of small business as a vital and necessary foundation of our economic life? On the answer to this question, all of our economic witnesses were agreed: vigorous antitrust law enforcement and the enactment of legislation to supplement and fill in the gaps of the existing antitrust laws are the only means by which competition can be restored to the monopolized parts of the economy and small business can be preserved from extinction.

FEDERAL REGULATORY POLICY AND ITS IMPACT ON SMALL BUSINESS

Another subject of vital concern to the small businessman is the impact of Federal regulatory policies on his day-to-day operations. While the economists who appeared before the subcommittee acknowledged that some public regulation is necessary for the maintenance of environmental quality, occupational safety, and consumer protection, it must be recognized that Federal regulatory policies work a hardship on the small firm that the large firm is able to escape. Large firms have at their command a myriad of resources—lawyers, accountants, and a bureaucratic organization—that enable them to absorb the impact—and indeed to deflect it—of Federal regulations. The small firms possess none of these advantages.

Walter Adams advocates an "overhaul" of the Federal regulatory apparatus that would both eliminate the tacit discrimination against small business and dismantle those features of the apparatus that actually shield large firms against competition.[13] As a solution to the problem, Professor Galbraith proposed the implementation of a regulatory policy that would recognize the differences between the large firms and the small firms:

> All regulatory policy should have categories. And without retreat on regulatory objectives, there should always be consideration of cost and reporting requirements for the small firm. By treating large and small alike, one treats them differently.[14]

THE ECONOMISTS LOOK AT THE FUTURE OF SMALL BUSINESS IN AMERICA: AN OVERVIEW

In the course of its hearings on the Future of Small Business in America, the subcommittee heard considerable testimony supporting the contention that small business is "an endangered species." As we have seen, inflation, the tax structure, Federal regulatory policy and concentration all have debilitating effects on the health and vitality of small business and ultimately, on that of the entire economy. These observations were underscored by every economist who appeared before the subcommittee, although Professor Galbraith's outlook on the future of small business was far more optimistic than those of his colleagues.[15]

---

[13] Hearings, pt. 2, p. 112.
[14] Ibid., p. 38.
[15] Ibid., p. 32.

In outlining the steps that should be taken to insure the survival and the success of small business in the future all of our professional economists concurred with Prof. Willard Mueller's plea for vigorous antitrust law enforcement.[16] Walter Adams also recommended the removal of "the artificial restraints on import competition in basic items like steel, consumer durables like televisions and receivers, consumer necessities like shoes, and food items like meat, sugar, and dairy products." [17] Charles Mueller advocated the passage of legislation that would limit the size of our business firms to the actual requirements for productive efficiency.[18]

In summary, it is a staple of the American tradition in economic and social thought that competition is the source of economic strength and the only reliable protector of the public interest. What needs to be remembered is that in order for an economic system to remain truly competitive, it needs a strong and healthy small business sector populated by a substantial number of firms.

---

[16] Hearings, pt. 2, p. 93.
[17] Ibid., p. 112.
[18] Ibid., p. 17.

Chapter 7.—Conclusion

The subcommittee's hearings on The Future of Small Business in America are but the latest chapter in a long history of national efforts to halt the insidious growth of monopoly and economic concentration and to encourage the lasting development of competition and free enterprise. The creation of an economic environment in which all businesses can thrive and prosper has been a recurring item on our national agenda.

The first chapter of this history was written in 1890 with the passage of the Sherman Act by Congress. The act, virtually the first of its kind in the modern world, represented the angry response of the public to the anticompetitive practices of the large trusts and combinations that had begun to dominate the American economy during the mid-19th century. The trusts, through predatory pricing schemes and local and personal price discrimination, had driven thousands of small firms out of business; as a result, communities and individuals were forced to pay high prices, prices dictated by the trusts rather than the market. The farmers who comprised the majority of the voting population of the midwestern States were also the victims of the abusive practices of the trusts; as monopolistic forces pushed the price of manufactured goods up, the price of farm products declined. Furthermore, the inequality of income distribution was further exacerbated by the fortunes amassed through monopoly profits. The reaction of the American public, whose sentiments lay with the small businessmen and the farmers, was bitter and uncompromising; it finally culminated in the passage of the Sherman Act.[1]

The purpose of the act was clearly indicated by the following remarks of Senator John Sherman (Rep.-Ohio), the sponsor of the legislation:

> The popular mind is agitated with problems that may disturb the social order, and among them all, none is more threatening than the inequality of condition of wealth that has grown within a single generation out of the concentration of capital into vast combinations to control production and trade and to break down competition.
>
> I am not opposed to combinations in and of themselves; I do not care how much men may combine for proper objects; but when they combine with a purpose to prevent competition, so that if a humble man starts a business in opposition to them, solitary and alone, in Ohio or anywhere else, they will crowd him down and they will sell their product at a loss or give it away in order to prevent competition . . .[2]

---

[1] Scherer, Frederic M., *Industrial Market Structure and Economic Performance* (Chicago: Rand McNally & Co., 1971), p. 424.

[2] Remarks of Senator Sherman, 21 *Congressional Record*, 2460, 2569.

By 1914, it had become clear to the public and to Congress that the Sherman Act was an inadequate barrier to the growth and spread of anticompetitive forces in the American economy. In that year, Congress passed two acts—the Clayton Act and the Federal Trade Commission Act—which were designed to outlaw specific practices left uncovered by the Sherman Act and to prevent the growth of monopoly in its incipiency. The intent of the legislation which created the Federal Trade Commission was incisively summarized by Congressman Stevens of New Hampshire:

> . . . this trade commission bill will do three things. . . . Last, and to my mind the most important one, it will give to this commission the power of preventing in their inception and in their beginning some of these unfair processes in competition which have been the chief sources of monopoly. . . . In the enforcement of the Sherman antitrust law, it has been disclosed in practically every case which the Government has brought against the big combinations . . . that the chief means of destroying competition by big combinations was by the use of methods which were distinctly unfair and oppressive. Those combinations can be dealt with by the Federal courts in the enforcement of the Sherman antitrust law. They can be dissolved. . . . What we wish to do above everything else is to prevent the growth of monopoly at the beginning.[3]

In spite of the antitrust statutes of 1890 and 1914, the first few decades of this century witnessed an unprecedented concentration of economic power in the hands of the few; as in the past, small businesses and the American consumer were its primary victims. Again, Congress responded and passed the Robinson-Patman Act in 1936; the target of the act was price discrimination, the means by which this concentration had often been effected. Senator Logan, one of the most persuasive advocates of the act, had the following to say about this concentration of economic power:

> . . . it will continue with accelerated force year after year until the small dealer will be gone, and then everything will be in the grasp of a few. . . . That ought not to be allowed to happen. When a complete monopoly shall have been created, which will come eventually if these tendencies are not checked, we will still have our big business, and then probably those who will have absolute control of the distribution of the necessaries of life will have a great time: "When we have squeezed out the independents, the corner druggists, the corner grocery stores, and they are all gone, then we can reach out and take what we please from the people." [4]

In 1950, Congress amended section 7 of the Clayton Act with the passage of the Celler-Kefauver Act. The old section 7 had been rendered completely ineffective due to a loophole which allowed the acquisition of corporate assets; in many cases, the acquisition of such assets tended to create a monopoly and lessen competition. According to Congressman Emanuel Celler, the act "merely codified the original

---

[3] 51 *Congressional Record*, 14941.
[4] 80 *Congressional Record*, 6284.

intent of the Clayton Act" by prohibiting the elimination of competition through the acquisition of corporate assets as well as of corporate stock.[5] The act, therefore, was designed to prevent monopolistic practices before they occurred.

As is clear from the remarks of those who supported the acts analyzed above, small businesses were often the first victims of the pernicious growth of monopolies; the advocates of a competitive, free enterprise economy often singled the small business out as the entity most in need of protection from the abuses of monopoly and economic concentration. In 1953, they went one step further and with the passage of the Small Business Act created the Small Business Administration as a Federal agency specifically charged with the responsibility of advancing and protecting the interests of small business. Senator Thye, who introduced the bill, summarized the purposes of the act with these words:

> The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiation and individual judgment be assured. The preservation and expansion of such competition is basic, not only to the economic well-being but to the security of this Nation. Such security and well-being cannot be realized unless the actual and potential of small business is encouraged and developed. It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect insofar as possible the interests of small business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts for supplies and services for the Government be placed with small business enterprises, and to maintain and strengthen the overall economy of the Nation.[6]

Through the creation of the Small Business Administration and the enactment of statutes designed to combat anticompetitive forces, Congress has, over the years, renewed its commitment to economic freedom and a competitive business climate. The evidence and data presented and evaluated at the subcommittee's hearings on The Future of Small Business in America lead to the inevitable conclusion that these good-faith efforts on the part of the Federal Government to aid small business and reverse the trend toward "bigness" have failed.[7] Economic concentration, riding the tide of an unprecedented merger wave, and monoply power continue to gnaw away at the foundation of our competitive economic system, the small business.

These observations and conclusions are not new: They received one of their most incisive and eloquent expressions some 40 years ago when President Franklin D. Roosevelt sent to Congress his proposal for the creation of a Temporary National Economic Committee entitled, "Recommendations to Curb Monopolies and the Concentration of Economic Power." [8]

---

[5] Remarks of Congressman Emanuel Celler, *Congressional Record*, 81st Cong., 2d sess., Nov. 27, 1950, A7296.

[6] 99 *Congressional Record*, 2597.

[7] Testimony of Milton Stewart, Chief Counsel for Advocacy, Small Business Administration, before the Subcommittee on Antitrust, Consumers and Employment, hearings on Job Creation, Sept. 26, 1978.

[8] *The Public Papers and Addresses of Franklin D. Roosevelt*, vol. 38, p. 305.

With one eye on the Fascist devastation of Europe and the other on anticompetitive forces at work in the American economy, the President began his message to Congress with these admonitory words:

> Unhappy events abroad have retaught us two simple truths about the liberty of a democratic people. The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. The second truth is that the liberty of a democracy is not safe if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living.[9]

And with words that still ring true for us today, he went on to say:

> Among us today, a concentration of private power without equal in history is growing. This concentration is seriously impairing the economic effectiveness of private enterprise as a way of providing employment for labor and capital and as a way of assuring a more equitable distribution of income and earnings among the people of the Nation as a whole.[10]

Just as Roosevelt recognized over 40 years ago, we too must recognize the necessity for major changes in our governmental policies—at both the congressional and Executive levels—with regard to the preservation of competition and free enterprise.[11] Such changes should include a reformulation of Government policy on such matters as tax structure and industry regulation in order to eliminate the disproportionately negative impact that existing policies now have on small business.

Furthermore, policymakers should scrutinize the way in which the decline of small business is reflected in the trend toward increased economic concentration. The tenacity of this trend in the United States is demonstrated by the fact that in 1935—3 years before President Roosevelt proposed the creation of the Temporary National Economic Committee—1 percent of all U.S. corporations controlled 52 percent of all manufacturing assets and 4 percent of those corporations controlled 84 percent of the net profits; in 1974, .09 percent controlled 64 percent of all manufacturing assets and 2 percent of all U.S. corporations controlled 89 percent of the net profits. It is clear from such figures that economic concentration remains a major obstacle to the creation of an economic climate in which small businesses can survive and thrive.

Unless direct and concerted action is taken now, small business, the mainstay of a truly competitive system, will continue to decline. This decline will have disastrous consequences for the American economy considering the proven contributions of small business to areas such as job creation and innovation.

---

[9] Ibid., pp. 305-306.

[10] *The Public Papers and Addresses of Franklin D. Roosevelt*, vol. 38, p. 306.

[11] The House Small Business Subcommittee on Antitrust, Consumers and Employment would advocate the establishment of an investigatory commission similar in design to that of President Roosevelt's Temporary National Economic Committee if not for the fact that H.R. 11445, the Omnibus Small Business Act, stipulates that the President shall submit to the Congress in January of every year a report on "Small Business and Competition." Such a report would cover the same areas under investigation by the TNEC during the late 1930's and early 1940's and would accomplish similar goals.

49-467 O - 79 - 4

A decision must be made: Do the American people wish to preserve the foundations upon which our Nation was built or do they wish to acquiesce to the gradual spread of a system alien to the American spirit, a system of economic oligarchy? The choice is in the hands of Congress, the Executive, and the American people.

Chapter 8.—Recommendations

Many of the recommendations received in testimony before this subcommittee have already received governmental attention. For example:

(1) The U.S. Senate and the House of Representatives have adopted a conference report to accompany H.R. 11445 authorizing the President to convene a White House Conference on Small Business to be held no later than June 30, 1980.

(2) The President named, and the Senate confirmed, Mr. Milton Stewart as the first Chief Counsel for Advocacy at the Small Business Administration.

(3) The Revenue Act of 1978 (H.R. 13511) has passed the House of Representatives and included (a) a graduated corporate income tax and (b) a reduction in the capital gains tax, both of which should greatly assist the small business community in meeting its capital needs.

(4) The U.S. Senate and the House of Representatives have adopted a conference report to accompany H.R. 11445 provisions of which require that each January the President submit a report on "Small Business and Competition." This report would examine the current role of small business in the economy; present a current and historical perspective of the economic variables influencing small business; identify economic trends affecting small business and the state of competition; examine the effects of, and problems caused by policies, programs, and activities of the Federal Government on small business and competition and recommend legislative and administrative solutions to such problems; and recommend a program for carrying out small business economic policy.

SPECIFIC RECOMMENDATIONS

The Subcommittee on Antitrust, Consumers and Employment, House Small Business Committee, makes its recommendations on the basis of its investigations, the testimony heard, the other evidence presented to and developed at its hearings on Future of Small Business in America. These recommendations are:

(1) All branches of the Federal Government should improve and expand their policies to give full effect to the congressional mandate "to aid, assist, counsel, and protect small business" as embodied in the Small Business Act of 1953 (15 U.S.C. 631).

(2) The Federal Trade Commission and the U.S. Department of Justice should:

(a) Develop for submission to Congress affirmative legislative proposals in the area of the antitrust laws designed specifically to stop and to reverse the trend of the continuing decline of small business;

(b) Vigorously enforce the existing antitrust laws in a manner designed to maximize efforts to forestall the decline of small business with particular emphasis on the enforcement of penal provisions against so-called "white collar" antitrust violations;

(c) Develop for submission to Congress proposals to reverse the trend toward increasing aggregate concentration through mergers and acquisitions;

(d) Focus enforcement efforts on predatory marketing and advertising practices which place small business at a serious competitive disadvantage;

(e) Continue and expand the practice of intervention in Federal agency proceedings in order to insure maximum freedom of entry by small business into monopolistic, oligopolistic and regulated industries; and

(f) Continue to work with State attorneys general and district attorneys in order to insure a coordinated and comprehensive enforcement of the antitrust laws at local, State, and Federal levels.

(3) The U.S. Department of the Treasury in cooperation with the Federal Trade Commission, the U.S. Department of Justice and the Small Business Administration should develop legislative proposals to amend existing tax laws which encourage and facilitate the increasing trend toward mergers and acquisitions.

(4) All Government agencies must begin or increase their efforts to insure that their regulations and the application thereof do not have a disproportionate economic impact on small business.

(5) All Government agencies must make a concerted effort to reduce the recordkeeping paperwork burden placed on small business. Particular attention should be focused on simplification, standardization, and nonduplication of existing regulations and requirements.

(6) The small business sector should receive a substantial increase in Federal procurement contracts and Federal research and development funds in order to insure compliance with the mandates of Sections 2(a) and 8(b) of the Small Business Act of 1953 (15 U.S.C. 631).

(7) Tax legislation should be passed which further graduates the corporate tax rates and specifically targets small business as receiving preferential capital gains treatment.

APPENDIX

It is a well-established fact that acquisitions and market concentration are now on the rise in certain sectors of the American economy, especially in manufacturing and mining. The implications of this upswing in merger activity for small business and its future in the American economy are clear: as concentration continues to increase and as monopolization spreads among the constituent industries of the American economy, small business continues to decline.

The following charts present a statistical analysis of the trend toward increased concentration and monopolization.

Table 14 covers the statistical history of acquisitions involving large, manufacturing and mining firms from the post-World War II period to 1976. The first decade in this time span witnessed a steady rise in the number of acquisitions with the dollar amounts of the assets involved in those acquisitions increasing at a dramatic rate: Four mergers involving $63.2 million in assets are recorded for 1948 compared to the 47 mergers involving $1,202.3 million for 1957. It is in the decade or so following 1958, especially in the last few years of that decade, that merger activity escalates to a high, feverish pitch with 42 mergers involving $1,070.6 million in assets in 1958 compared to the unprecedented 174 mergers involving assets of $12,580 million that were consummated in 1968.

Table 15 and table 16 also provide an overview of merger activity in the years from 1948 to 1976, but from different perspectives. Table 15 is a year-by-year breakdown of the total assets of all the large manufacturing and mining companies acquired as a percentage of the total assets of all manufacturing and mining companies. In 1948, the total assets of mining and manufacturing companies acquired through mergers constituted only .10 percent of the total assets of all corporations in the same category. In 1957, after peaking at 1.17 percent in 1955, this proportion stood at .62 percent. In the last few years, following the decade from 1957 to 1967–68, however, this proportion of acquired assets rose rapidly to an average of 2.52 percent and reached its al -time high of 2.94 percent in 1968.

Table 16 enables one to see the degree to which the 200 largest manufacturing firms (based on 1975 figures) were prominent in the merger trends of the years under consideration. In 1948, the recorded acquisitions were completely the work of these 200 firms. In 1957, they were behind 20 of the 47 acquisitions that took place that year; those 20 acquisitions accounted for 57.7 percent of all the assets acquired. The last few years of the following decade are characterized by an interesting juxtaposition of statistical indices. In 1967, the largest 200 firms accounted for 52 of the 138 mergers recorded for that year or 37.7 percent of the total; however, those same 200 firms acquired 63.6 percent of the total assets obtained through mergers by all firms.

In 1968, the 200 largest accounted for 46 percent of the total acquisitions and 61.3 percent of the total assets acquired through mergers.

The chart entitled "Concentration of Total Assets for Manufacturing Corporations, 1960 and 1976," presents data on the percentages of total assets held by firms within various asset categories. In 1960, firms with assets of $1 million and more controlled approximately 28 percent of the assets; by 1976, these same firms had increased their share to approximately 55 percent.

The chart entitled "Largest Manufacturing Corporations—Percent of Assets Held, 1950 and 1972," presents data on percent of assets held by the largest manufacturing firms. In 1950, the first 100 largest corporations in this category controlled 39.7 percent of the assets; by 1972, these 100 firms had increased their share to 47.6 percent.

In the course of the hearings on "The Future of Small Business in America" before the House Small Business Subcommittee on Antitrust, Consumers and Employment, a consensus emerged from the individual testimonies of some of the Nation's leading economists; as James M. Folsom, of the Federal Trade Commission, put it, the current trend in merger activity "poses something of a threat" to small business. According to Folsom, mergers were directly responsible for the increase in concentration in the years from 1950 to 1976. It is a simple matter to grasp the connection between increased merger activity and the status of small business. Small businesses are either swallowed up by the larger firms through acquisition or rendered impotent in their efforts to compete in markets that have come to be dominated by large firms—large firms with economic power, massive advertising apparati and other devices which make competition a dying force in the American economy.

TABLE 14.—LARGE ACQUISITIONS IN MANUFACTURING AND MINING, BY YEAR, 1948–76

Year	Number of acquisitions	Assets (millions
1948	4	$63.2
1949	6	89.0
1950	5	186.3
1951	9	201.5
1952	16	373.8
1953	23	779.1
1954	37	1,444.5
1955	67	2,165.7
1956	53	1,882.0
1957	47	1,202.3
1958	42	1,070.6
1959	49	1,431.1
1960	51	1,535.1
1961	46	2,003.3
1962	65	2,251.9
1963	54	2,535.8
1964	73	2,302.9
1965	64	3,253.7
1966	76	3,329.1
1967	138	8,258.5
1968	174	12,580.0
1969	138	11,043.2
1970	91	5,904.3
1971	59	2,459.9
1972	60	1,885.5
1973	64	3,148.8
1974	62	4,466.4
1975	59	4,950.5
1976 [2]	77	5,961.1
Total	1,709	88,759.1

[1] Acquired firms with assets of $10,000,000 or more.
[2] Figures for 1976 are preliminary.

Note: Not included in above tabulation are companies for which data were not publicly available. There were 464 such companies with assets of $11,780,100,000 for period 1948–76.

Source: Bureau of Economics, Federal Trade Commission.

TABLE 15.—TOTAL ASSETS OF ALL LARGE MANUFACTURING AND MINING COMPANIES ACQUIRED AS A PERCENTAGE OF TOTAL ASSETS OF ALL MANUFACTURING AND MINING CORPORATIONS, 1948–76

Year	All manufacturing and mining corporations [1]—total assets (millions)	Large [2] manufacturing and mining acquisitions—total assets (millions)	Percentage
1948	$109,374	$114.4	0.10
1949	118,252	89.0	.08
1950	122,119	186.3	.15
1951	142,840	201.5	.14
1952	171,359	385.3	.22
1953	178,728	795.1	.44
1954	181,980	1,479.0	.81
1955	189,667	2,227.3	1.17
1956	210,668	2,110.5	1.00
1957	228,593	1,427.1	.62
1958	233,635	1,173.1	.50
1959	246,869	1,712.2	.68
1960	265,030	1,734.1	.65
1961	275,658	2,234.9	.81
1962	292,774	2,660.7	.91
1963	307,136	3,187.1	1.04
1964	323,311	2,576.5	.80
1965	346,639	3,721.9	1.07
1966	386,640	4,380.1	1.13
1967	427,133	8,955.7	2.10
1968	468,711	13,759.2	2.94
1969	526,129	12,219.2	2.32
1970	578,019	6,601.1	1.14
1971	610,296	3,140.5	.51
1972	653,751	2,670.8	.41
1973	718,768	3,558.8	.50
1974	738,913	5,118.9	.69
1975	807,783	5,528.0	.68
1976 [3]	870,197	6,590.3	.76

[1] Figures for manufacturing and mining corporate assets have been revised to reflect the use of 1st quarter QFR.
[2] Acquired firms with assets of $10,000,000 or more.
[3] Figures for 1976 are preliminary.

Source: Corporate manufacturing assets obtained from Quarterly Financial Reports; totals for mining derived from IRS Statistics of Income. Bureau of Economics, Federal Trade Commission.

TABLE 16.—LARGE ACQUISITIONS IN MANUFACTURING AND MINING BY FIRMS RANKED AMONG THE 200 LARGEST MANUFACTURING FIRMS IN 1975, BY YEAR, 1948–76

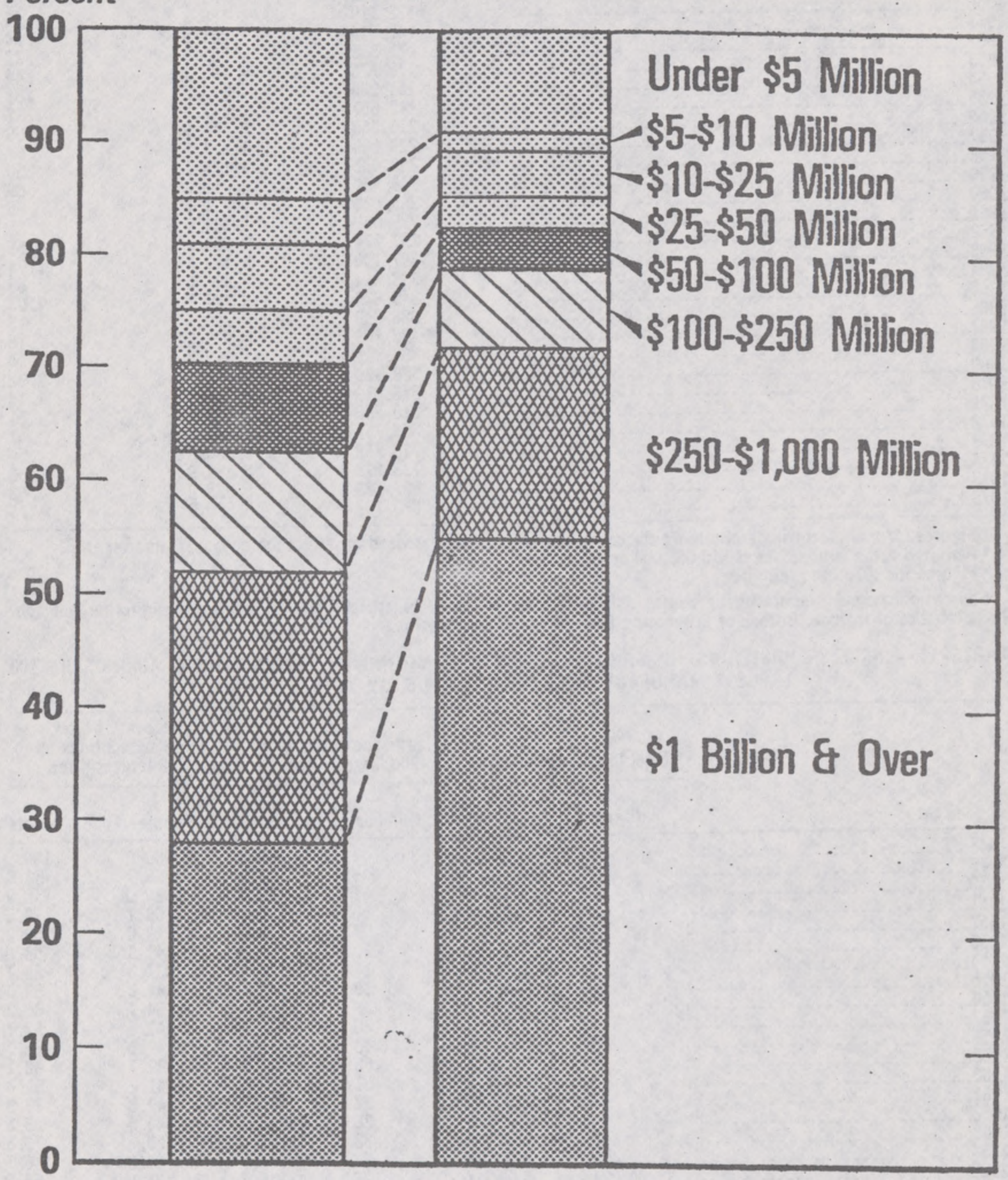
Year	Total large acquisitions [1]		Large acquisitions by 200 largest firms [2]		Percent of total large acquisitions by 200 largest firms	
	Number	Assets (millions)	Number	Assets (millions)	Number	Assets
1948	4	$63.2	4	$63.2	100.0	100.0
1949	6	89.0	4	45.3	66.7	50.9
1950	5	186.3	1	20.0	20.0	10.7
1951	9	201.5	6	160.1	66.7	79.5
1952	16	373.8	7	195.0	43.8	52.2
1953	23	779.1	10	457.9	43.5	58.8
1954	37	1,444.5	14	919.9	37.8	63.7
1955	67	2,165.7	30	1,148.7	44.8	53.0
1956	53	1,882.0	29	1,146.5	54.7	66.2
1957	47	1,202.3	20	693.4	42.6	57.7
1958	42	1,070.6	18	682.1	42.9	63.7
1959	49	1,431.1	56	687.9	32.7	48.1
1960	51	1,535.1	61	789.4	41.2	51.4
1961	46	2,003.3	22	1,480.7	47.8	83.9
1962	65	2,351.9	26	1,205.6	40.0	53.5
1963	54	2,525.8	32	1,871.7	59.3	73.8
1964	73	2,302.9	32	1,075.7	43.8	46.7
1965	64	3,253.7	23	1,815.7	35.9	55.8
1966	76	3,329.1	28	1,929.5	36.8	58.0
1967	138	8,258.5	52	5,252.8	37.7	63.6
1968	174	12,580.0	80	7,717.1	46.0	61.3
1969	138	11,043.2	48	6,054.5	34.8	54.8
1970	91	4,904.3	30	3,260.2	33.0	55.2
1971	59	2,459.9	17	960.6	28.8	39.1
1972	60	1,885.5	21	739.1	35.0	39.2
1973	64	3,248.8	25	1,767.0	29.1	56.1
1974	62	4,466.4	23	1,874.6	27.2	42.0
1975	59	4,950.5	19	2,592.0	32.2	52.4
1976 [3]	77	5,961.1	16	1,902.8	20.8	31.9
Total	1,709	88,759.1	674	48,609.0	39.4	54.8

[1] Acquired firms with assets of $10,000,000 or more.
[2] Ranked by 1975 total assets.
[3] Figures for 1976 are preliminary.

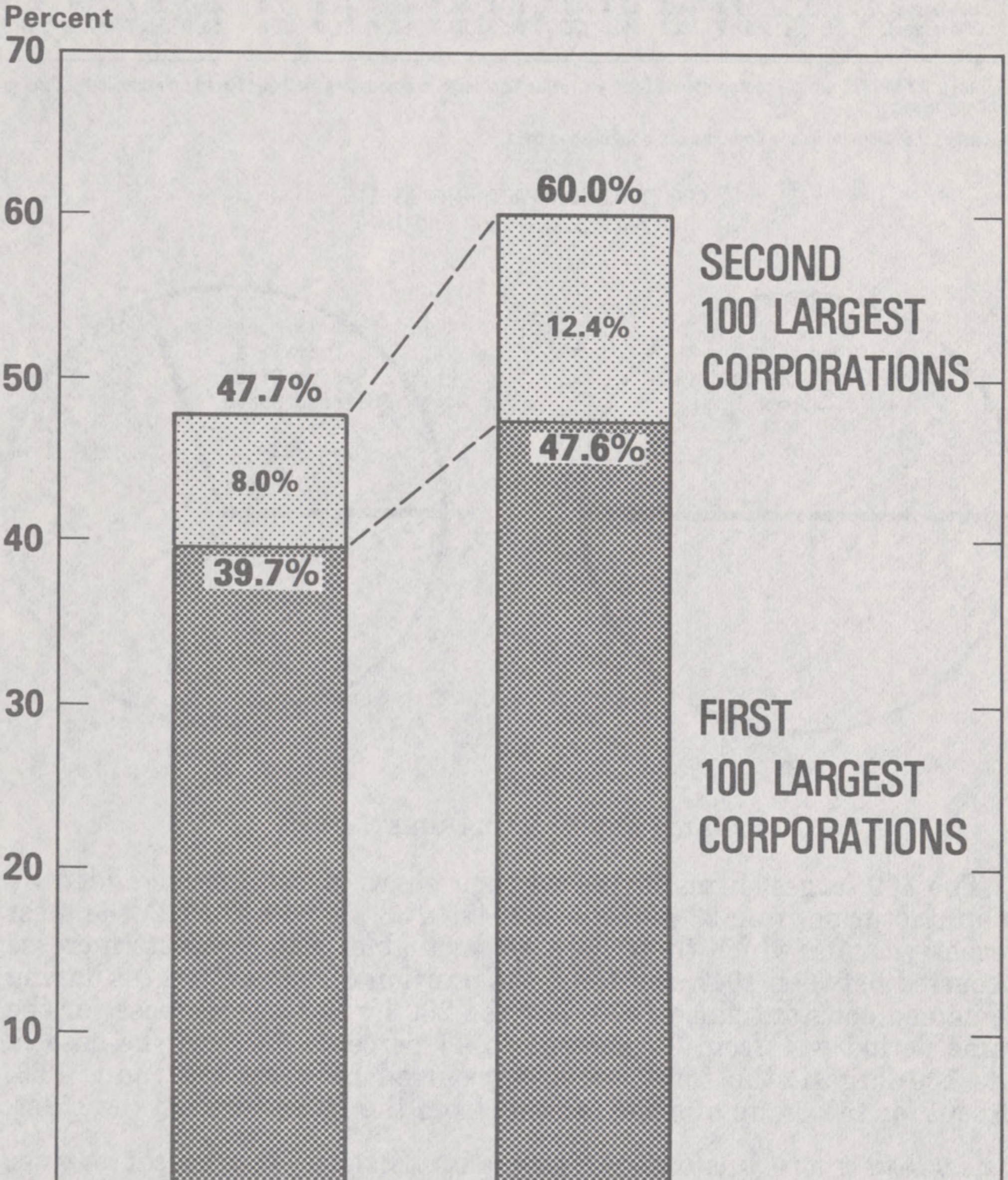
Note: Not included in above tabulation are companies for which data were not publicly available. There were 464 such companies with assets of $11,780,100,000 for period 1948–76, of which 164 companies with assets of $5,169,500,000 were acquisitions by the 200 largest firms.

Source: Bureau of Economics, Federal Trade Commission.

Concentration of Total Assets for Manufacturing Corporations, 1960 and 1976



Largest Manufacturing Corporations— Percent of Assets Held, 1950 and 1972



Source: U.S. Federal Trade Commission, unpublished data.

TABLE 1.—LARGEST MANUFACTURING CORPORATIONS—PERCENT SHARE OF ASSETS HELD, 1950–76

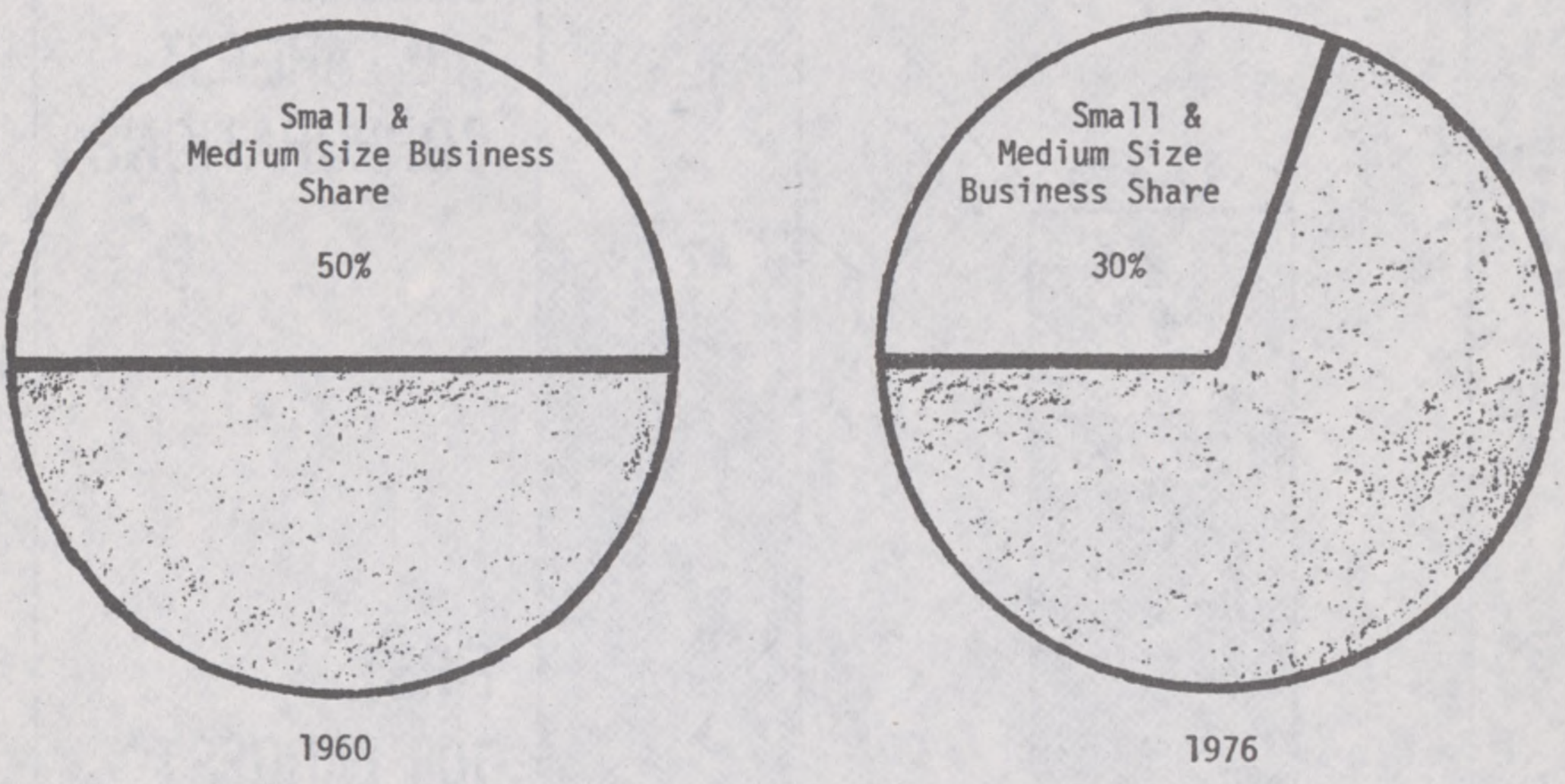
[Corporations ranked on value of assets in each year; prior to 1969, excludes newspapers]

	1950	1955	1960	1965	1968	1969	1970	1971	1972	[1] 1973	1974	1975	1976
Corporation rank group:													
100 largest	39.7	44.3	46.4	46.5	49.1	48.2	48.5	48.9	47.6	44.7	44.4	45.0	45.5
200 largest	47.7	53.1	56.3	56.7	60.8	60.1	60.4	61.0	60.0	56.9	56.7	57.5	58.0

[1] Data prior to 1973 are not comparable to later years due to change in accounting methods based on exclusion of foreign company assets.

Source: U.S. Federal Trade Commission, unpublished data.

CORPORATE MANUFACTURING ASSETS
BY ASSET SIZE, 1960 and 1976



VALUE ADDED BY LARGEST FIRMS

The 100 largest firms increased their share of total value added by manufacturing from 23 percent in 1947 to 33 percent in 1972, the most recent year for which these data are available. The complete increase occurred between 1947 and 1963, the position of the 100 largest having remained constant since 1963. For the 200 largest the increase for the same period was from 30 percent to 43 percent. As with the case of the 100 largest, the total increase occurred between 1947 and 1963, except for the group of firms ranking from the 101st through the 151st.

TABLE 2.—SHARE OF TOTAL VALUE ADDED BY MANUFACTURER ACCOUNTED FOR BY VARIOUS SIZE COMPANIES, 1947–72

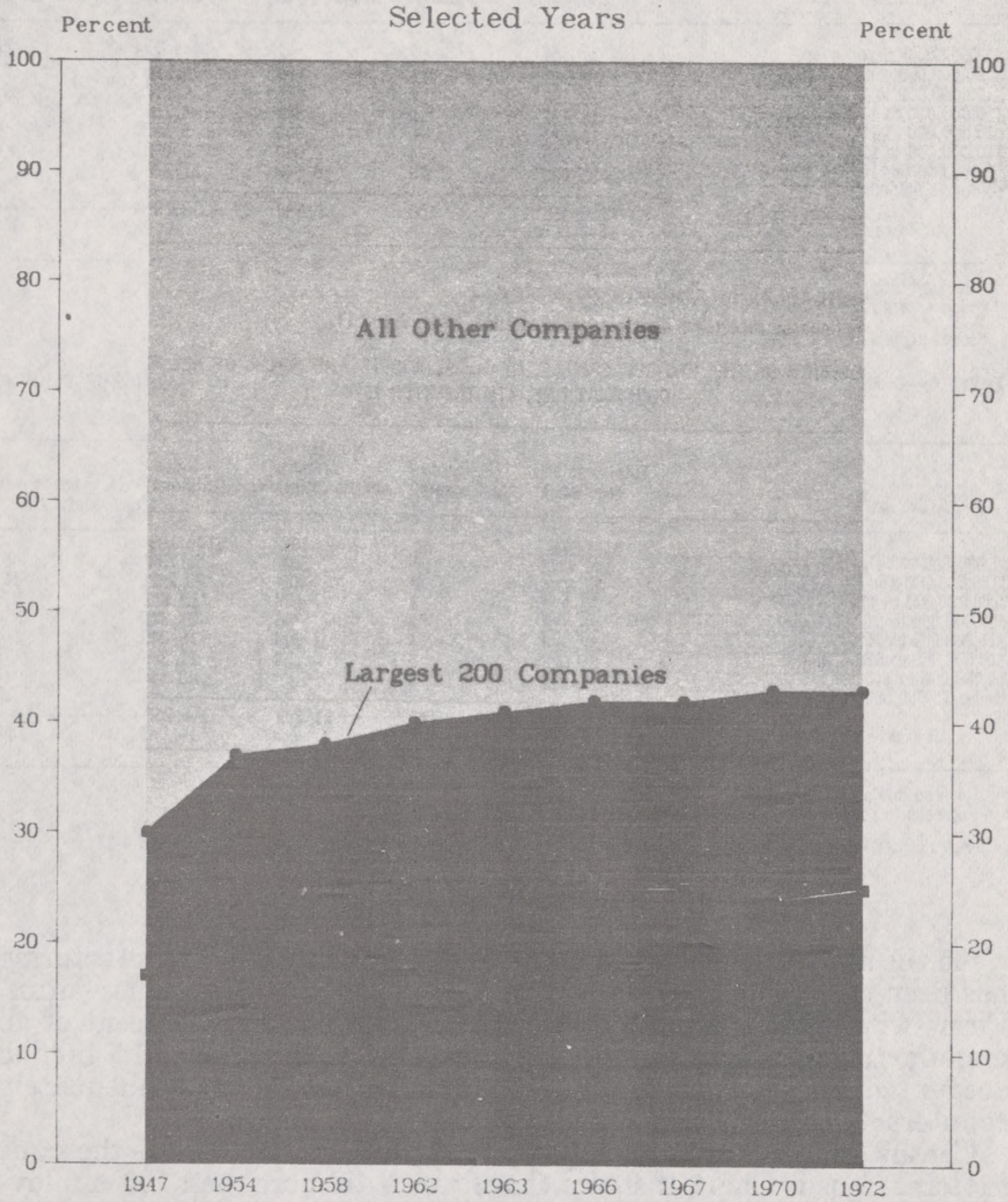
	1972	1967	1963	1958	1954	1947
Largest:						
50	25	25	25	23	23	17
51 to 100	8	8	8	7	7	6
101 to 150	6	5	4	5	4	4
151 to 200	4	4	4	3	3	3

Source: 1972 Census of Manufacturers.

Value Added by Manufacturers

(By Company Size)

Selected Years



Source: 1972 Census of Manufactures

FTC tables 3 and 6 provide specific data including the number of firms and dollar of sales as well as assets. These charts indicate the billion dollar firms increased their share of assets from 28 percent in 1960 to 55 percent in 1976. Their share of sales increased from 20 percent in 1960 to 45 percent in 1976.

Certainly, much of this increase was due to inflation. However, a large portion of this increase is due to an increase in overall concentration and a decline in the importance of smaller firms.

TABLE 3.—COMPOSITION OF THE FTC-SEC SAMPLE, BY TOTAL ASSETS AND SALES OF ALL MANUFACTURING CORPORATIONS, 4TH QUARTER 1960

Asset size	Total assets [1] (millions)	Percent of total assets [2]	Number of firms in sample (total)	Sales [1] (millions)	Percent of total sales [2]
$1,000,000,000 and over	$70,561	28	28	$17,440	20
$250,000,000, to $1,000,000,000	60,364	24	113	17,995	21
$100,000,000 to $250,000,000	29,363	11	176	9,579	11
$50,000,000 to $100,000,000	19,199	8	265	6,515	8
$25,000,000 to $50,000,000	13,637	5	380	4,750	6
$10,000,000 to $25,000,000	15,237	6	948	5,581	6
$5,000,000 to $10,000,000	9,496	4	1,080	3,890	5
Under $5,000,000	38,000	15	6,642	21,238	24
All asset sizes	255,856	100	9,632	86,989	100

[1] Revised totals.
[2] Figures are rounded and will not necessarily add to totals.

Source: Quarterly financial report, 4th quarters 1960 and 1961, tables 9 and 11.

TABLE 6.—COMPOSITION OF THE FTC–SEC SAMPLE, BY TOTAL ASSETS AND SALES OF ALL MANUFACTURING CORPORATIONS, 4TH QUARTER 1976

Asset size	Total assets [1] (millions)	Percent of total assets [2]	Number of firms in sample (total)	Sales [1] (millions)	Percent o total sales
$1,000,000,000 and over	$481,709	55	162	$140,199	45
$250,000,000 and $1,000,000,000	149,412	17	304	51,736	16
$100,000,000 to $250,000,000	62,633	7	402	23,252	7
$50,000,000 to $100,000,000	32,970	4	472	12,887	4
$25,000,000 to $50,000,000	26,538	3	756	11,321	4
$10,000,000 to $25,000,000	32,244	4	1,705	15,040	5
$5,000,000 to $10,000,000	21,025	2	7,482	11,360	4
Under $5,000,000	77,330	9		48,458	15
All asset sizes	883,860	100	11,283	314,253	100

[1] Revised totals.
[2] Figures are rounded and will not necessarily add to totals.

Source· Quarterly financial report, 4th quarter 1976 and 3d quarter 1977, tables 7, G–1 G–2, H–1, and I–1.

THE STATUS OF SMALL FIRMS

As the above discussion indicates, large firms' role in manufacturing has been increasing. The pattern is the opposite for the smallest firms. Firms with under $5 million in assets accounted for 15 percent of all manufacturing assets in 1960, while firms with under $10 million accounted for only 11 percent in 1976, one more than adequately counteracts any inflation growth.

Census data, while not comparable to the FTC data shows the same pattern. Census Chart 4f shows that firms with more than 100 employees increased their share of manufacturing sales from 84 percent in 1963 to over 87 percent in 1972. (Footnote: 1972 is the most recent Census data available. Next year when Census publishes data for 1977 similar information will become available.) The role of smaller

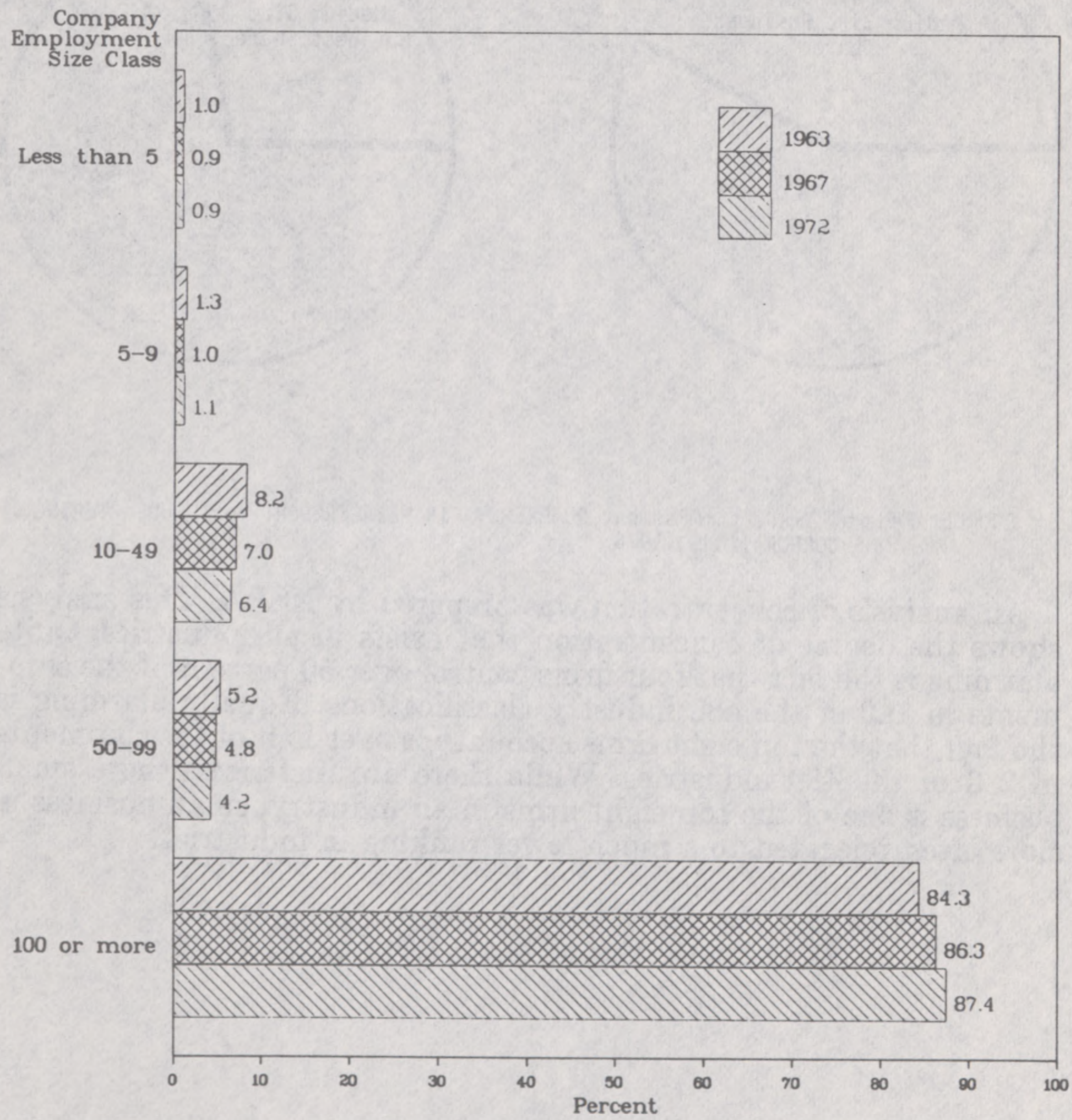
firms shows a similar decline. If we used the large category of 250, 500, or 1000 employees, the picture is as follows:

	1963	1967	1972
Employee size:			
0 to 100	15.7	13.7	12.6
100 to 250	7.6	6.8	6.1
250 to 500	5.7	5.5	4.9
500 to 1,000	5.8	4.9	4.6
1,000 to 2,499	7.5	6.7	6.9
2,500 to 4,999	7.2	6.4	6.7
5,000 to 9,000	8.8	8.3	8.7
10,000 over	41.7	47.7	49.5
Total 1,000 and under	34.8	30.9	28.2

MANUFACTURING 4f

Sales by Employment Size Class:

1963, 1967, and 1972



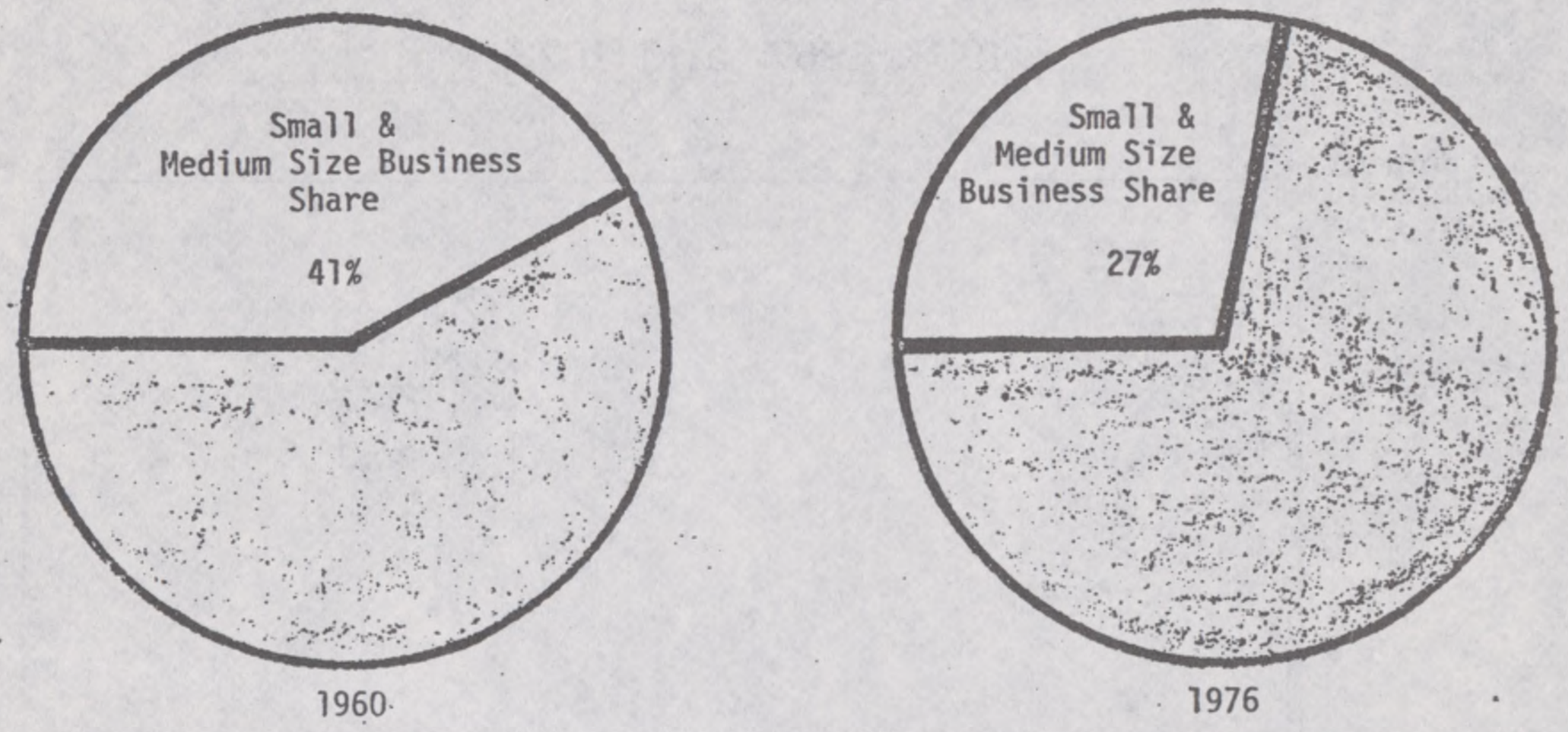
Source: 1963,1967, and 1972 Enterprise Statistics

NET PROFITS

The percent of profits controlled by the firms with assets of under $5 million increased from 3 percent in 1960 to 6 percent in 1976. The $5 to $10 million group remained at 2 percent while the middle size firms lost their share of profits to the larger firms. One possible explanation is the lower tax rates paid by the larger firms and the higher tax rates paid by the medium size firms. Both the FTC and Treasury have prepared studies which show the largest firms paid lower taxes than the medium size firms.

For firms with assets of up to $50 million, profit shares have declined. The following chart shows the shrinking share of manufacturing profits and medium size firms.

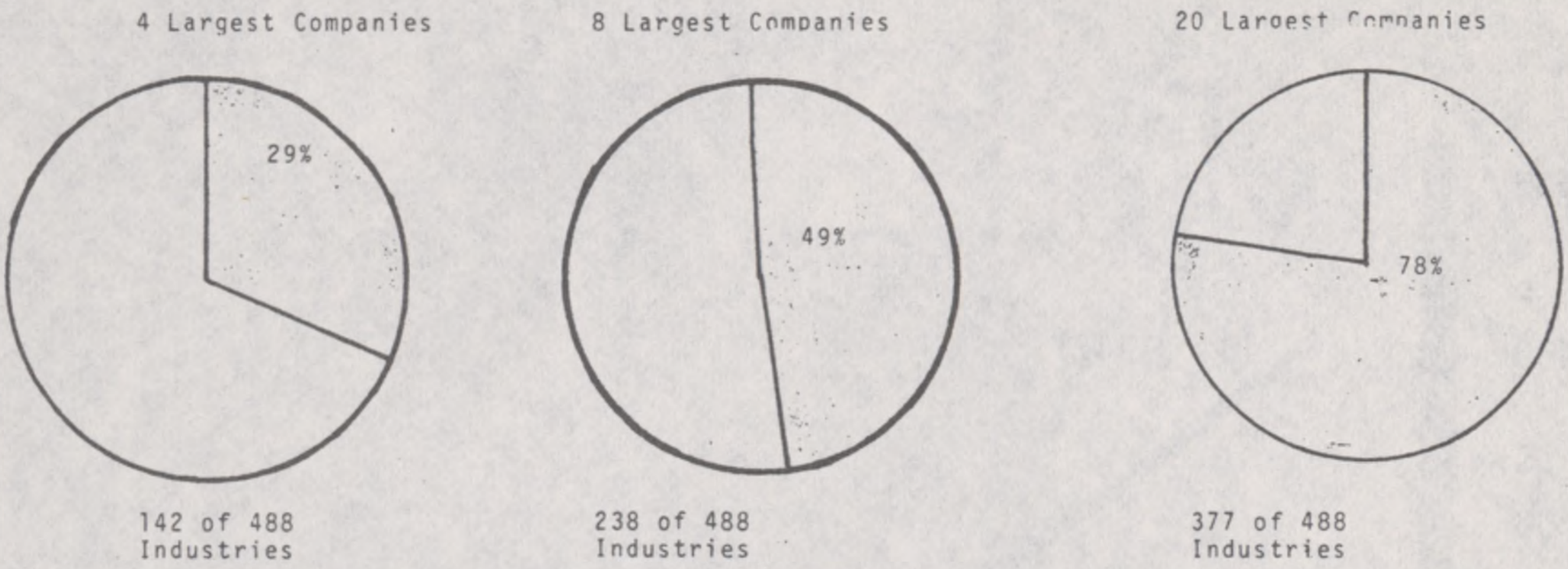
CORPORATE MANUFACTURING PROFITS
BY ASSET SIZE, 1960 and 1976



SOURCE: Federal Trade Commission, QUARTERLY FINANCIAL REPORT for MANUFACTURING CORPORATIONS, 1976.

An analysis of concentration was prepared by NSBA. This analysis shows the degree of concentration that exists in all industries. Quite alarming is the fact that four firms control over 50 percent of the shipments in 142 of the 488 industry classifications. Equally alarming is the fact that the top eight firms account for over half of the shipments in 238 of the 489 industries. While there are instances where small business is one of the top eight firms in an industry, small business is more often relegated to a much lower ranking in industries.

LARGEST COMPANIES CONTROL OVER
50% OF DOLLAR VALUE OF SHIPMENTS OF UNITED
STATES MANUFACTURING INDUSTRIES



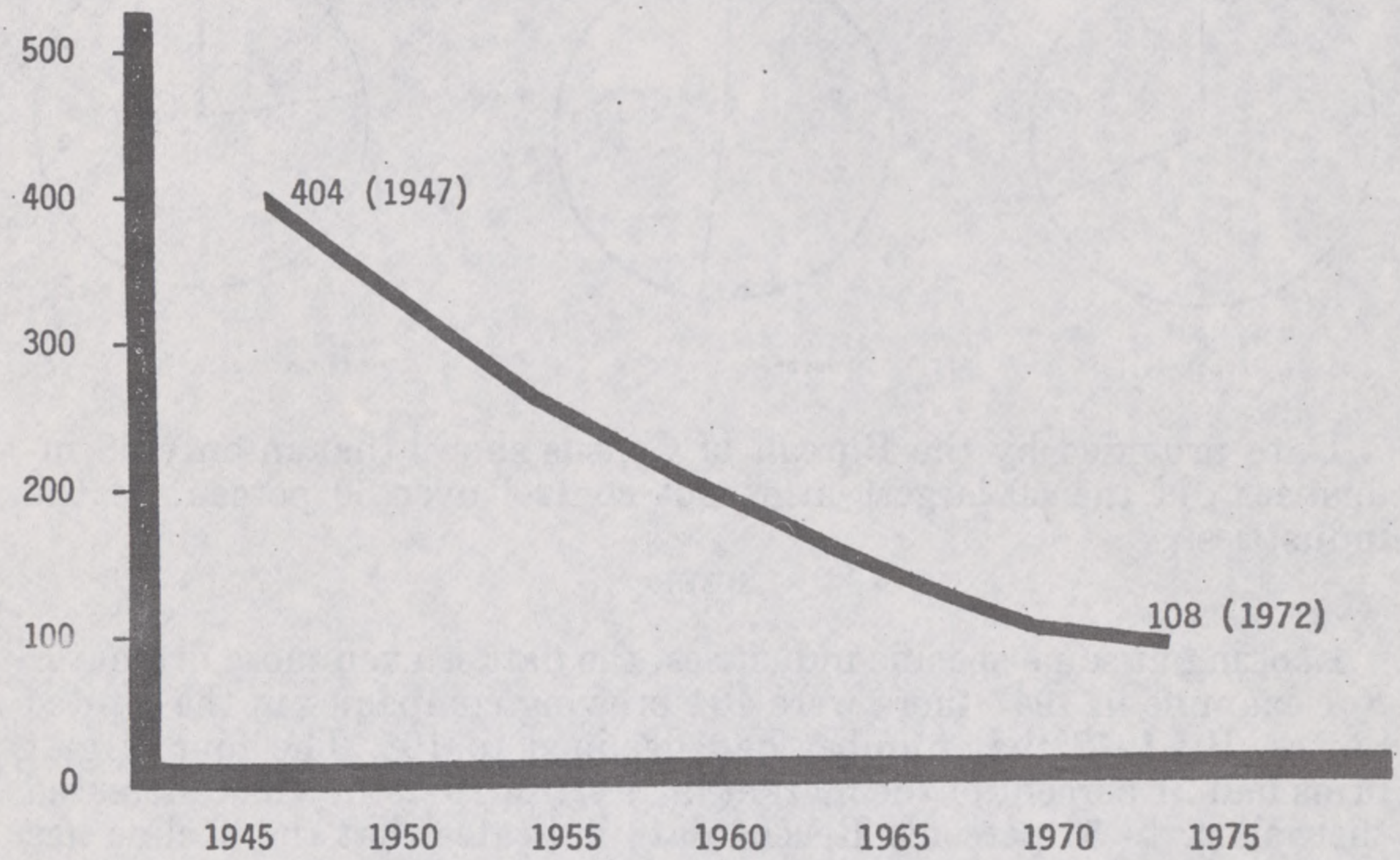
Data provided by the Bureau of Census shows that in only 38 industries did the 50 largest firms not control over 50 percent of the industries.

BEER

Looking at some specific industries, the data is even more dramatic. For example in 1947 there were 404 brewing companies in the United States. By 1972 that number had declined to 108. The four largest firms had 21 percent of the market in 1947. In 1972 they had increased their share to 52 percent. Recent data indicates that the decline has continued.

NUMBERS OF BREWING COMPANIES IN THE UNITED STATES:

FROM 1947-1972



SOURCE: UNITED STATES DEPARTMENT OF COMMERCE,
1972 Census of Manufacturers

DAIRIES

Another example is in the dairy processing industries. In 1964, the independent dairies' market share was 53.5 percent and this decreased to 47.2 percent in 1971. It is estimated to have been 36.5 percent in 1976 and the downward trend continues. The 1976 market share breakdown is estimated as:

Type firm	Percent	Trend
National corporations (7)	21.0	+
Regional corporations (8)	10.0	+
Cooperatives	17.5	+
Supermarket dairies	15.0	+
Local independents	36.5	−

With respect to numbers, the last accurate type survey of fluid milk dairy companies was in 1971. This survey showed that of a total of 1,667 companies, 1,528 were local independents and that their number had decreased 54 percent since 1964. This downward trend continues to the present.

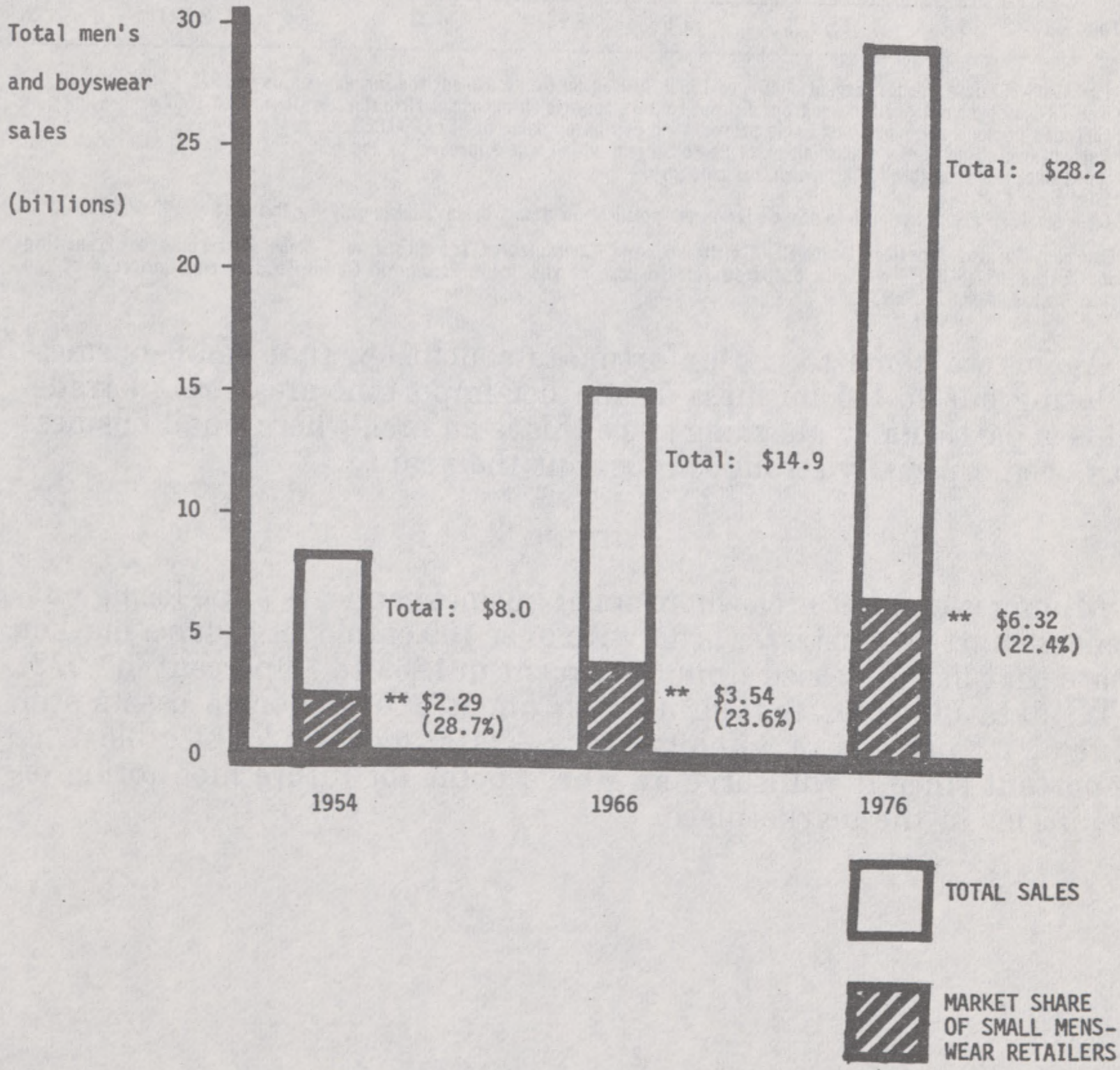
COFFEE

Another similar industry is coffee. From 1963 to 1972 the number of coffee roasters dropped from 261 to 162. One source estimates today that there are only 40 coffee roasters left in the United States.

Several of the witnesses appearing before the subcommittee testified as to the conditions of particular retail industries. One such example described the men's and boys' wear retail trade. Don Debolt testified that the market share of small menswear retailers has dropped from 28.7 percent in 1954 to 22.4 percent in 1976. SBLC chart 1 portrays the plight of the small menswear retailer.

ILLUSTRATION OF MARKET SHARE OF TOTAL MEN'S AND BOYSWEAR RETAIL

SALES HELD BY MEN'S AND BOYSWEAR STORES TYPICAL OF M.R.A. MEMBERSHIP *



*SOURCE: Menswear Retailers of America

** Indicates Stores Typical of Menswear Retailers of America Membership

49-467 O - 79 - 2

TABLE 2.—ACQUISITIONS OF FOOD RETAILERS, 1949–75

[Dollar amounts in millions]

Year	By all acquirers		By 20 leading food chains [1]			By 10 leading food chains [1]		
	Number of acquisitions	Sales of acquired	Number of acquisitions	Sales of acquired	Percent of total acquired sales	Number of acquisitions	Sales of acquired	Percent of total acquired sales
1949	5	$66	1	$47	71	1	$47	71
1950	5	2	2	3	75	1	1	25
1951	12	28	6	25	89	5	19	68
1952	10	71	5	55	77	4	53	75
1953	13	88	4	77	88	2	61	69
1954	24	76	7	37	50	4	31	41
1955	55	559	23	465	83	15	267	48
1956	69	450	32	310	69	20	141	31
1957	52	319	20	194	61	14	170	53
1958	74	517	41	361	70	27	261	50
1959	63	319	34	136	43	14	24	8
1960	44	307	25	201	65	10	36	12
1961	50	518	30	407	79	16	292	56
1962	53	306	24	179	58	14	157	51
1963	51	568	27	463	82	16	416	73
1964	41	312	16	188	60	8	153	49
1965	28	558	5	61	11	3	35	6
1966	40	539	6	110	20	3	73	14
1967 [2]	33	1,350	3	21	2	0	0	0
1968	51	1,155	12	[3] 314	[4] 27(12)	6	[3] 199	[4] 17(2)
1969	45	715	14	41	8	6	13	3
1970	36	688	9	74	11	5	22	3
1971	27	435	2	28	6	2	28	6
1972	59	[5] 1,069	6	242	20	1	3	[6] —
1973	27	[5] 206	13	[5] 29	14	3	11	5
1974	18	[5] 1,591	4	30	2	3	14	1
1975 [7]	29	255	5	99	39	3	84	35
Total	1,014	12,879	376	4,197	32	206	2,611	20

[1] For 1949–66, data are for largest chains of 1963. Subsequent data are for the largest chains of 1975.
[2] The FTC merger notification program did not require reports from food distributors until June of 1967.
[3] Includes Lucky's acquisition of Eagle Stores, with estimated sales of $175,000,000.
[4] Percent excluding Lucky's acquisition of Eagle Stores, which was approved by the FTC.
[5] Sales data not available for 1 firm in this category.
[6] Less than 1 percent.
[7] Data for 1975 are not complete since premerger notification data were available only for the first months of 1975.

Source: Marion, Mueller, Cotterill, Geithman, and Schmelzer "The Profit and Price Performance of Leading Food Chains 1970–74," a study prepared for the use of the Joint Economic Committee of the Congress of the United States, Apr. 12, 1977.

Again, we come to the unfortunate conclusion that small business is losing out to big business in another important area—retail trade. This is particularly alarming since this is an area where small business has been especially strong throughout the years.

MINING

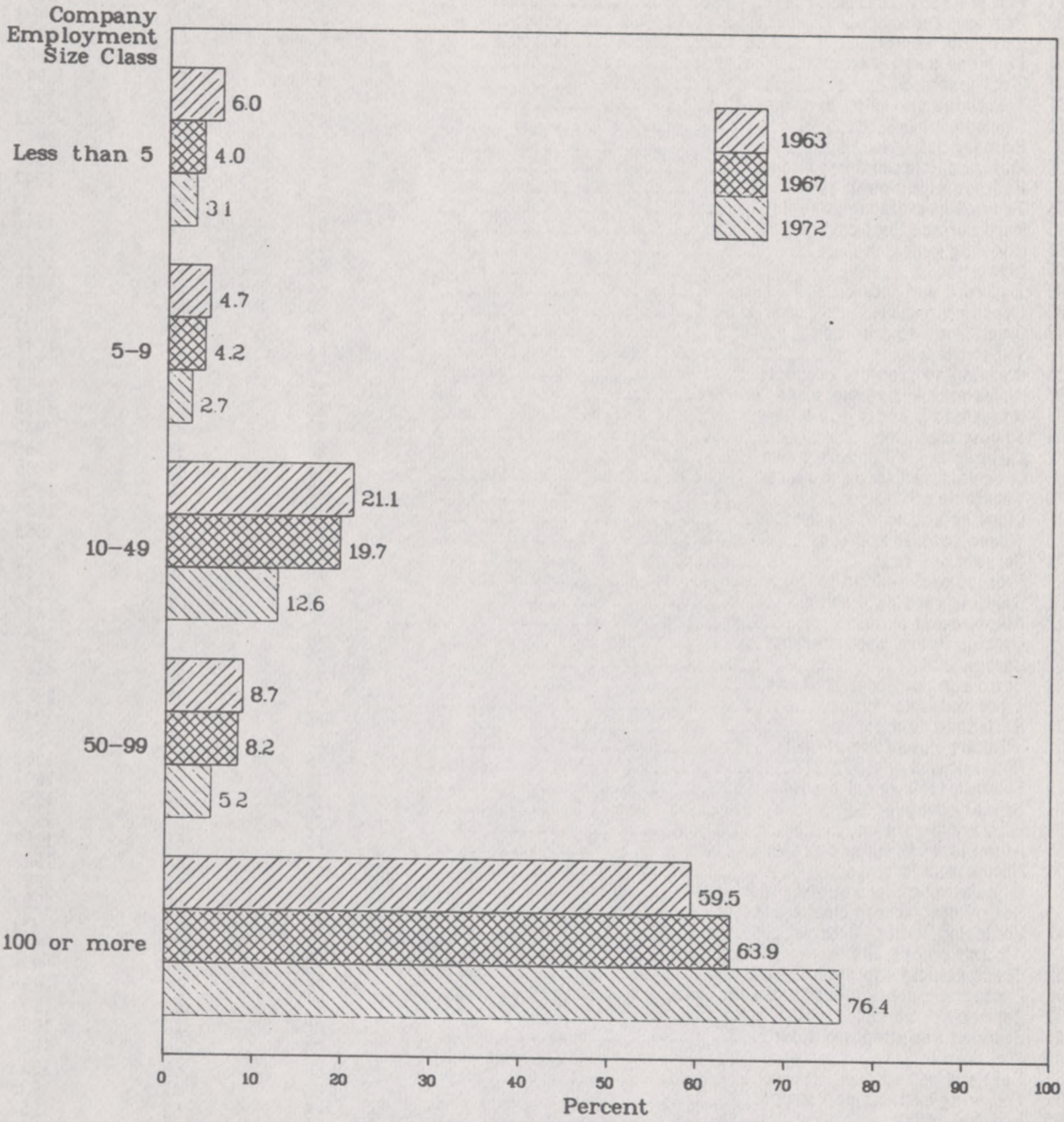
Mining is another area where small business appears to be losing out. Census chart 4e illustrates firms with over 100 employees have a market share that has increased from 59 percent in 1963 to 76 percent in 1972. FTC data indicates that firms with under $10 million in assets still control 22 percent of mining assets. Data such as FTC table 9 is important since it will serve as a base point for future monitoring of conditions in the marketplace.

MINING

4e

Sales by Employment Size Class:

1963, 1967, and 1972



Source: 1963,1967, and 1972 Enterprise Statistics

TABLE 9.—COMPOSITION OF THE FTC-SEC SAMPLE, BY TOTAL ASSETS AND SALES OF ALL MINING CORPORATIONS, 4TH QUARTER 1976

Asset size	Total assets (millions)	Percent of total assets [1]	Number of firms in sample (total)
$1,000,000,000 and over; $250,000,000 to $1,000,000,000	$11,778	38	24
$100,000,000 to $250,000,000	4,949	16	32
$50,000,000 to $100,000,000	2,850	9	40
$25,000,000 to $50,000,000	2,217	7	55
$10,000,000 to $25,000,000	2,201	7	109
$5,000,000 to $10,000,000; Under $5,000,000	6,708	22	448
All asset sizes	30,703	100	708

[1] Figures are rounded and will not necessarily add to totals.

Source: Quarterly financial report, 4th quarter 1976, tables 7, K–1, and K–2.

PERCENT DOLLAR VALUE OF SHIPMENTS ACCOUNTED FOR BY FOUR LARGEST COMPANIES

SIC	Industry	1972 (percent)	Earliest previous record	
			Percent	Year
2043	Cereal breakfast foods	90	68	1935
2823	Cellulose manmade fibers	96	82	1963
3211	Flat glass	92	90	1954
3332	Primary lead	93	(1)	(1)
3492	Safes and vaults	[2] 91	84	1935
3511	Turbines and generators	90	93	1963
3641	Electric lamps	90	92	1947
3661	Telephone and telegraph apparatus	[3] 94	90	1954
3671	Electron tubes	95	87	1963
3692	Primary batteries	92	76	1947
3711	Motor vehicles and car bodies	93	92	1967
3743	Railroad equipment	97	91	1947
3795	Tanks and tank components	99	(1)	(1)
3996	Hard surface floor covering	91	80	1947
2067	Chewing gum	87	97	1935
2111	Cigarettes	84	89	1935
2296	Tire cord and fabric	84	79	1963
3275	Gypsum products	80	85	1947
3482	Small arms ammunition	89	(1)	(1)
3572	Typewriters	[4] 81	79	1947
3624	Carbon and graphite products	80	87	1947
3632	Household refrigerators and freezers	85	74	1963
3633	Household laundry equipment	83	56	1935
3636	Sewing machines	84	78	1935
3672	Cathode ray TV picture tubes	83	91	1963
2066	Chocolate and cocoa products	74	67	1935
2076	Vegetable oil mills	70	66	1958
2131	Chewing and smoking tobacco	71	56	1935
2271	Woven carpets and rugs	78	67	1963
2279	Carpets and rugs	78	32	1963
2646	Pressed and molded pulp goods	75	86	1947
2771	Greeting card publishing	70	39	1947
2812	Alkalies and chlorine	72	70	1947
2824	Organic fibers, noncellulosic	74	94	1963
2895	Carbon black	74	72	1963
2999	Petroleum and coal products	74	58	1954
3011	Tires and inner tubes	73	70	1963
3031	Reclaimed rubber	78	84	1947
3262	Vitreous china food utensils	75	56	1947
3296	Mineral wool	75	67	1963
3313	Electrometallurgical products	74	88	1947
3331	Primary copper	72	87	1958
3334	Primary aluminum	79	100	1947
3355	Aluminum rolling and drawing	73	68	1963
3463	Nonferrous forgings	71	84	1963
3574	Calculating and accounting machines	73	83	1967
3635	Household vacuum cleaners	75	81	1963
3647	Vehicular lighting fixtures	78	(1)	(1)
3724	Aircraft engine and engine parts	77	(1)	(1)
3769	Space vehicle equipment	70	(1)	(1)
3861	Photographic equipment and supplies	74	77	1935
2032	Canned specialties	67	67	1963
2045	Blended and prepared flour	68	70	1963
2046	Wet corn milling	63	79	1935
2063	Beet sugar	66	68	1935
2087	Flavoring extracts and sirups	66	47	1935
2095	Roasted coffee	65	52	1963
2141	Tobacco stemming and redrying	67	88	1947
2284	Thread mills	62	65	1947
2396	Automotive and apparel trimmings	67	58	1963
2647	Sanitary paper products	63	62	1963
2813	Industrial gases	65	79	1935
2822	Synthetic rubber	62	53	1954
2841	Soap and other detergents	62	72	1963
2861	Gum and wood chemicals	68	63	1963
2892	Explosives	67	80	1947
3229	Pressed and blown gas	66	51	1947
3263	Fine earthenware food utensils	65	38	1947
3333	Primary zinc	66	53	1947
3353	Aluminum sheet, plate, and foil	65	(1)	(1)
3411	Metal cans	66	80	1935
3465	Automotive stampings	69	(1)	(1)
3579	Office machines	60	59	1963
3631	Household cooking equipment	60	51	1963
3694	Engine electrical equipment	65	67	1947
3714	Motor vehicle parts and accessories	61	60	1967
3751	Motorcycles, bicycles, and parts	65	60	1935
3761	Guided missiles and space vehicles	62	(1)	(1)

See footnotes at end of table.

PERCENT DOLLAR VALUE OF SHIPMENTS ACCOUNTED FOR BY FOUR LARGEST COMPANIES—Continued

SIC	Industry	1972 (percent)	Earliest previous record	
			Percent	Year
3721	Aircraft	66	59	1958
2052	Cookies and crackers	59	59	1963
2062	Cane sugar refining	59	63	1963
2075	Soybean oil mills	54	44	1947
2082	Malt beverages	52	11	1935
2084	Wine, brandy, and brandy spirits	53	26	1947
2091	Canned and cured seafoods	50	38	1963
2121	Cigars	56	38	1935
2259	Knitting mills	52	34	1958
2262	Finishing plants, manmade fiber, and silk	56	31	1963
2291	Felt goods, except woven felts and hats	51	61	1935
2294	Processed textile waste	54	23	1947
2591	Drapery hardware and blinds and shades	50	32	1958
2611	Pulpmills	59	46	1958
2655	Fiber cans, drums, and similar products	54	57	1963
2661	Building paper and board mills	52	47	1963
2816	Inorganic pigments	52	67	1954
2833	Medicinals and botanicals	59	72	1954
3021	Rubber and plastic footwear	59	81	1935
3041	Rubber and plastics hose and belting	52	[1]	[1]
3221	Glass containers	55	63	1947
3253	Ceramic wall and floor tile	56	49	1963
3261	Vitreous plumbing fixtures	58	58	1947
3292	Asbestos products	50	60	1954
3322	Malleable iron foundries	52	35	1947
3324	Steel investment foundries	56	[1]	[1]
3421	Cutlery	55	41	1947
3425	Handsaws and saw blades	51	63	1935
3484	Small arms	53	[1]	[1]
3489	Ordnance and accessories	54	[1]	[1]
3519	Internal combustion engines	50	49	1963
3534	Elevators and moving stairways	55	63	1947
3537	Industrial trucks and tractors	50	57	1947
3562	Ball and roller bearings	53	62	1947
3573	Electronic computing equipment	51	66	1967
3576	Scales and balances except laboratory	50	50	1963
3581	Automatic merchandising machines	51	55	1963
3582	Commercial laundry equipment	53	59	1947
3586	Measuring and dispensing pumps	51	49	1947
3592	Carburetors, pistons, rings, valves	53	[1]	[1]
3612	Transformers	59	73	1947
3613	Switchgear and switchboard apparatus	51	51	1963
3639	Household appliances	57	41	1963
3673	Electron tubes, transmitting	55	52	1963
3674	Semiconductors and related devices	57	46	1963
3678	Electronic connectors	55	[1]	[1]
3691	Storage batteries	57	62	1947
3693	X-ray apparatus and tubes	54	58	1947
3764	Space propulsion units and parts	59	[1]	[1]
3822	Environmental controls	57	55	1963
3824	Fluid meters and counting devices	57	[1]	[1]
3851	Ophthalmic goods	56	58	1947
3873	Watches, clocks, and watch cases	55	[1]	[1]
3914	Silverware and plated ware	52	56	1935

[1] Not available.
[2] Year 1958.
[3] Year 1970.
[4] Year 1967.

ADDENDUM

TABLE 3a.—COMPOSITION OF THE FTC-SEC SAMPLE BY TOTAL ASSETS AND SALES OF ALL MANUFACTURING CORPORATIONS, 4TH QUARTER 1960

Asset size	Net profit after taxes (millions)	Percent o total profi f t
$1,000,000,000 and over	$1, 449	41
$250,000,000 or $1,000,000,000	906	26
$100,000,000 to $250,000,000	388	11
$50,000,000 to $100,000,000	246	7
$25,000,000 to $50,000,000	176	5
$10,000,000 to $25,000,000	169	5
$5,000,000 to $10,000,000	83	2
Under $5,000,000	96	3
All asset sizes [1]	3, 515	100

[1] Revised total s.

Note: Figures are rounded and will not necessarily add to totals.

Source: Quarterly financial report, 4th quarters 1960 and 1961.

ADDENDUM

TABLE 6a.—COMPOSITION OF THE FTC-SEC SAMPLE BY TOTAL ASSETS AND SALES OF ALL MANUFACTURING CORPORATIONS, 4TH QUARTER 1976

Asset size	Net income for quarter (millions)	Percent of net income
$1,000,000,000 and over	$9, 329	60
$250,000,000 and $1,000,000,000	2, 614	17
$100,000,000 to $250,000,000	849	5
$50,000,000 to $100,000,000	526	3
$25,000,000 to $50,000,000	435	3
$10,000,000 to $25,000,000	496	3
$5,000,000 to $10,000,000	339	2
Under $5,000,000	984	6
All asset sizes [1]	15, 572	100

[1] Revised totals

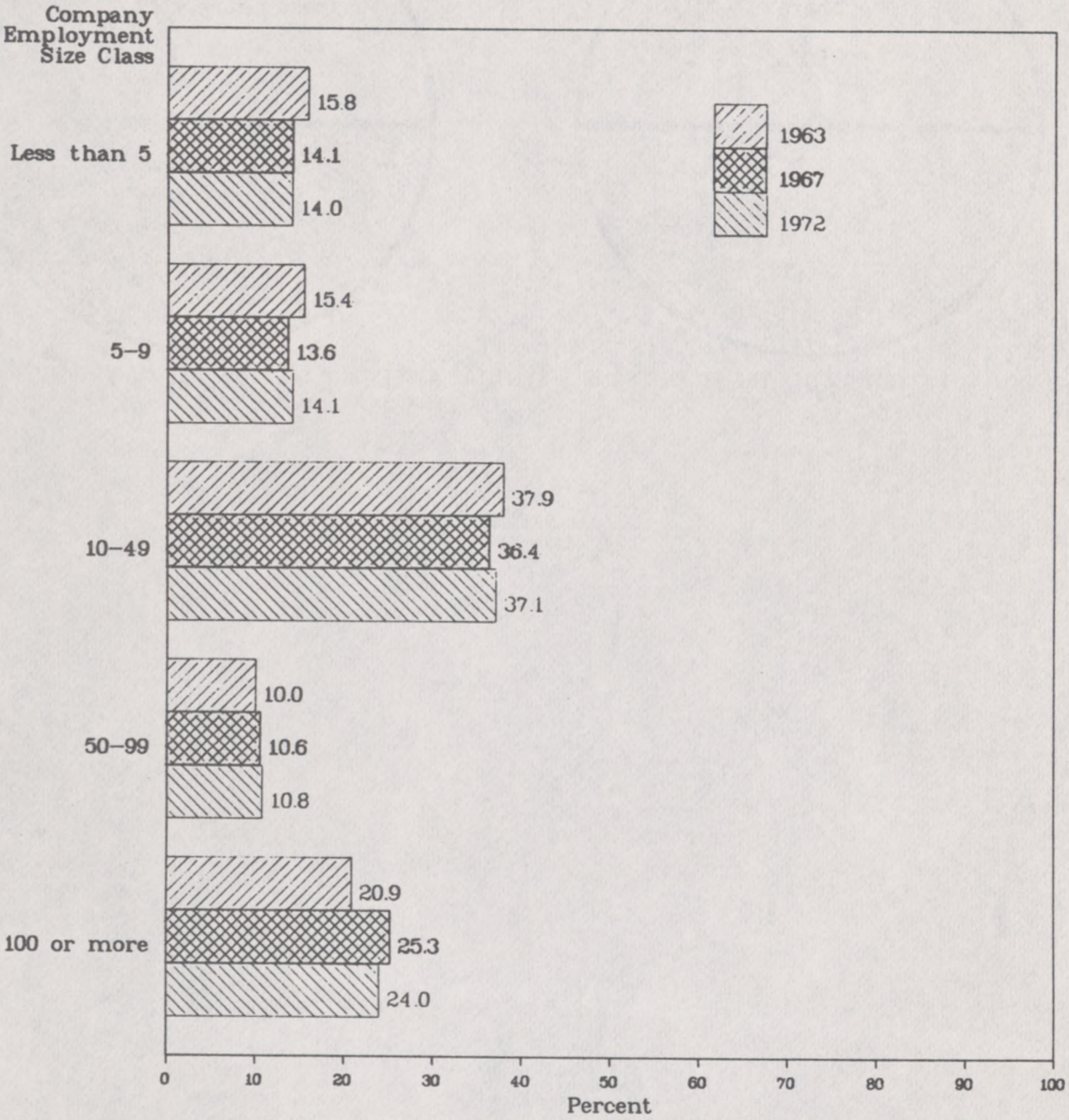
Note: Figures are rounded and will not necessarily add to totals.

Source: Quarterly financial report, 4th quarter 1976 and 3d quarter 1977, tables H–1 and I–1.

WHOLESALE TRADE 4b

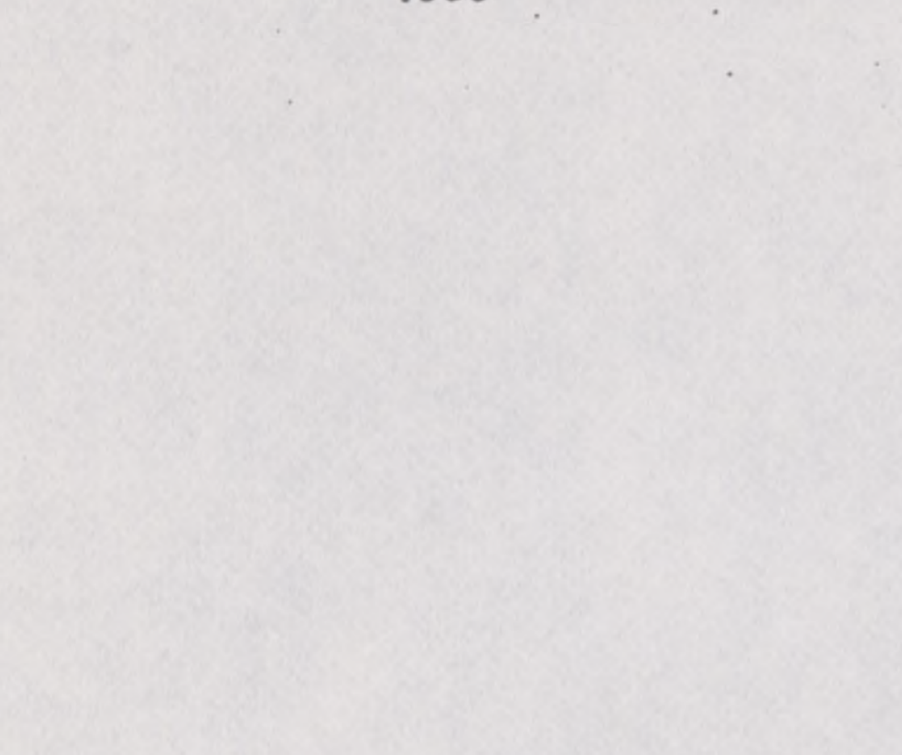
Sales by Employment Size Class:

1963, 1967, and 1972



Source: 1963,1967, and 1972 Enterprise Statistics

CORPORATE MANUFACTURING ASSETS
BY ASSET SIZE, 1960 and 1976



1960



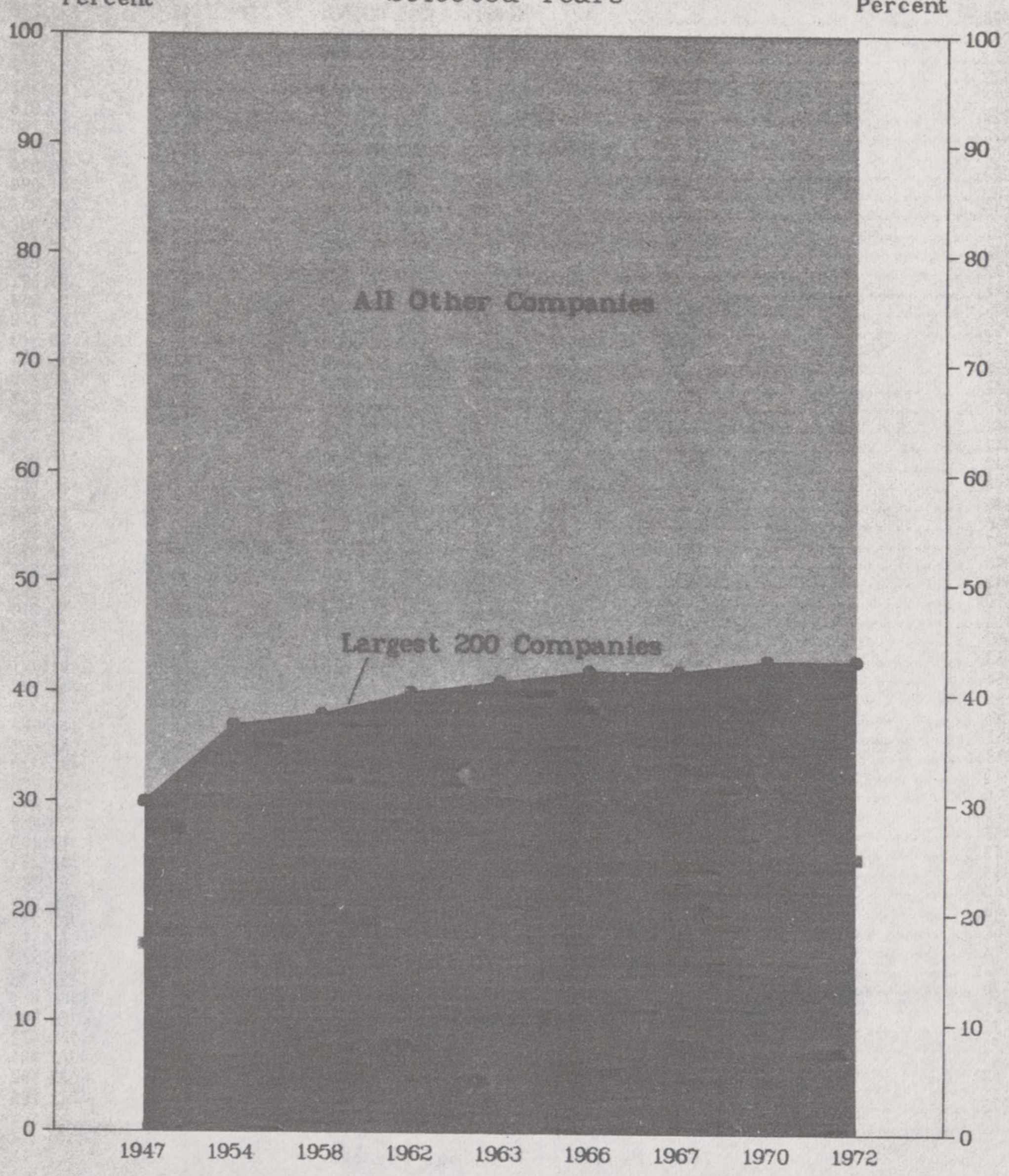
1976

6

Value Added by Manufacturers

(By Company Size)

Selected Years



Source: 1972 Census of Manufacturers

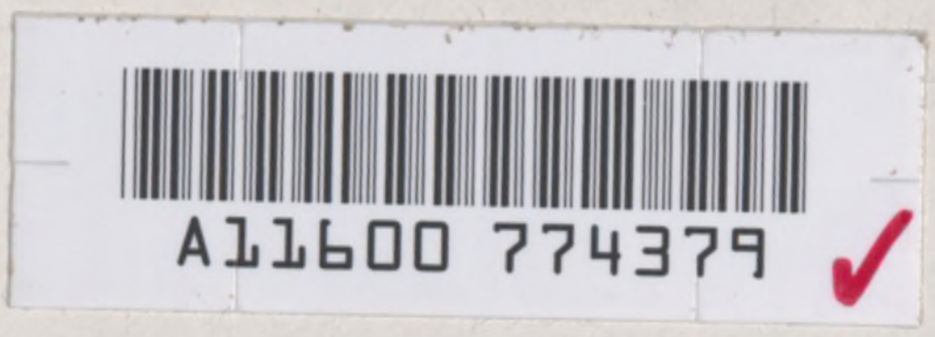
REPORT OF THE SBA TASK FORCE ON VENTURE AND EQUITY CAPITAL FOR SMALL B.SINESS—U.S. SMALL BUSINESS ADMINISTRATION, JANUARY 1977

FAILURE TRENDS SINCE 1920

Year	Number of failures	Total failure liabilities	Failure rate per 10,000 listed concerns	Average liability per failure
1920	8,881	$295,121,000	48	$33,230
1921	19,652	627,401,000	102	31,926
1922	23,676	623,895,000	120	26,351
1923	18,718	539,387,000	93	28,817
1924	20,615	543,226,000	100	26,351
1925	21,214	443,744,000	100	20,918
1926	21,773	409,233,000	101	12,795
1927	23,146	520,105,000	106	22,474
1928	23,842	489,559,000	109	20,534
1929	22,909	483,252,000	104	21,094
1930	26,355	668,282,000	122	25,357
1931	28,285	736,310,000	133	26,032
1932	31,822	928,313,000	154	29,172
1933	19,859	457,520,000	100	23,038
1934	12,091	333,959,000	61	27,621
1935	12,244	310,580,000	62	25,369
1936	9,607	203,173,000	48	21,148
1937	9,490	183,253,000	46	19,310
1938	12,836	246,505,000	61	19,204
1939	14,768	182,520,000	70	12,359
1940	13,619	166,684,000	63	12,239
1941	11,848	136,104,000	55	11,488
1942	9,405	100,763,000	45	10,713
1943	3,221	45,339,000	16	14,076
1944	1,222	31,660,000	7	25,908
1945	809	30,225,000	4	37,361
1946	1,129	67,349,000	5	59,654
1947	3,474	204,612,000	14	58,898
1948	5,250	234,620,000	20	44,690
1949	9,246	308,109,000	34	33,323
1950	9,162	248,283,000	34	27,099
1951	8,058	259,547,000	31	32,210
1952	7,611	283,314,000	29	37,224
1953	8,862	394,153,000	33	44,477
1954	11,086	462,628,000	42	41,731
1955	10,969	449,380,000	42	40,968
1956	12,686	562,697,000	48	44,356
1957	13,739	615,293,000	52	44,784
1958	14,964	728,258,000	56	48,667
1959	14,053	692,808,000	52	49,300
1960	14,445	938,630,000	57	60,772
1961	17,075	1,090,123,000	64	63,843
1962	15,782	1,213,601,000	61	76,898
1963	14,374	1,352,593,000	56	94,100
1964	13,501	1,329,223,000	53	98,454
1965	13,514	1,321,666,000	53	97,800
1966	13,061	1,385,659,000	52	106,091
1967	12,264	1,265,227,000	49	102,332
1968	9,636	940,996,000	39	97,654
1969	9,154	1,142,113,000	37	124,767
1970	10,748	1,887,754,000	44	175,638
1971	10,326	1,916,929,000	42	185,641
1972	9,566	2,000,244,000	38	209,099
1973	9,345	2,298,606,000	36	245,972
1974	9,915	3,053,137,000	38	307,931
1975	11,432	4,380,170,000	43	383,150
1976	9,628	3,011,271,000	35	312,762

TOTAL NUMBER OF BUSINESS FAILURES

	1975	1976	1977
January	1,080	886	664
February	963	867	693
March	1,145	965	858
April	1,202	888	804
May	1,045	835	724
June	805	775	732
July	904	689	513
August	891	798	687
September	853	714	560
October	987	745	NA
November	801	770	NA
December	756	696	NA
Total	11,432	9,628	----------


A11600 774379