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Statement of

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Before

BUSINESS ADVISORY COUNCIL FOR THE DEPARTMENT OF COMMERCE

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Americans today are united in accepting a few basic ideas: First, that our essential liberties, both political and economic, are in jeopardy; second, that the preservation of these liberties will demand the utmost use of our national skills and resources; and, third, that personal and group interests must be temporarily set aside wherever these interests are inconsistent with such a maximum national effort.

Sharing this common ground with you, I want to talk to you today about the substantial contribution which small and independent business can make to the nation's industrial mobilization and about the danger--the avoidable danger--that small business may not be given the fullest opportunity to make this contribution. My experience with the Truman Committee tells me that industrial mobilization for military purposes has a strong tendency to rely upon big companies more than upon small companies. The strains and stresses of the mobilization period, if uncontrolled, reinforce this tendency by increasing the size and power of large enterprises and by subjecting small enterprises to special risks and difficulties. The situation does not spring from anyone's plan to bring about such results. It is the cumulative effect of many detailed decisions born from hurry and sometimes from the ill-considered self-interest shown by strategically placed enterprises. It shows itself in a tendency toward greater concentration of economic power.

Industrial concentration is often promoted by the scarcities that accompany mobilization. Sellers are likely to serve their larger customers first. Vertically integrated concerns are likely to serve themselves before serving their independent customers. Such concentration may be promoted by the government's emergency procurement because some government officials turn readily to large enterprises with established reputations and because such enterprises are much more familiar with government specifications and with the procedures for awarding contracts. It is promoted by the need for secrecy in handling strategic knowledge since secrecy is easiest to maintain if the knowledge is available only to a few persons in a few key enterprises. It is promoted by the channeling of government funds for research into a few large research organizations. It is promoted by the channeling of government loans to a few large producers who can get materials and who have government contracts. All these observations result from my experience on the Truman Committee.

I should also like it to be clearly understood that I am not criticizing large companies nor their executives for putting themselves at the service of the government during an emergency. Their facilities and their know-how are indispensable. I am saying that because they are important and because they are well-known and because the use of them offers obvious advantages to a government that is necessarily in a hurry and does not want to take unnecessary risks, they tend to be used disproportionately. This disproportionate use ultimately weakens the country during the progress of the emergency and creates a concentration which weakens the country's institutions after the emergency is over.

The other side of the picture is that small business tends to be under-used. Such concerns are likely to be cut off first when goods are scarce. They are least likely to be able to accumulate inventories in anticipation of a shortage or to find alternative sources of supply. They experience unusual difficulty in adapting their operations to the use of substitute materials, since their research facilities are typically limited. Their financial

resources are often unequal to the risk of rapidly expanding their capacity, and finally they find it hard to attract new investment capital or to secure adequate credit, either private or governmental. Unable to keep close watch over the development of defense orders and unable to bid on the larger contracts, they are handicapped in obtaining government business. They find it difficult to obtain subcontracts because they cannot offer reciprocal subcontracts. In selling to the civilian market, they encounter difficulties when goods are scarce and consumer incomes are high. Buyers who are uncertain if they can get replacements are likely to prefer known brands to unknown brands. Price controls are likely to eliminate, partially or wholly, the price differentials which have offset the relative lack of prestige of the small company's products. Whereas the drafting of personnel for military service is an inconvenience to the large company, it may be a disaster to the small one.

All of us have a common interest in counteracting these tendencies. Even the large business enterprise which, at first glance, obtains a differential advantage from its size has such a common interest. The Federal Trade Commission has a very special interest. When small business is not adequately utilized, a large proportion of the country's total productive capacity is prevented from contributing to the country's economic strength. This was true in the last war. In 1943, for example, a survey of unused capacity among small plants was made by the Department of Commerce. It concluded that only thirteen percent of the concerns studied were using their existing facilities fully; that half of the companies could increase their output if they obtained men and materials to do so; and that a third of them could increase their output even without additional men and materials. Among the plants which had from 21 to 125 wage earners, twenty-five percent were producing less in January 1943 than in 1941 and about thirty percent reported that they could increase production by fifty percent or more without adding new facilities.

This underuse of the small establishment was a corollary of an excessive concentration of government contracts. From June 1940 to September 1944 fifty-one percent of the prime contracts went to thirty-three corporations and more than sixty-seven percent to one hundred corporations. General Motors Company alone received nearly eight percent of all the contracts awarded. Even subcontracts went mostly to the larger concerns. A study of 252 of the nation's largest corporations made by the Smaller Warplants Corporation in 1943 showed that these firms sublet about thirty-four percent of the value of their prime contracts but that only a quarter of this amount went to subcontractors with less than five hundred workers.

When we overload the industrial machine at one end and underload it at the other, the inevitable result is failure to produce as much and as fast as can be produced. This fact appeared clearly in the unfilled order backlogs that prevailed during the latter part of the recent World War. In March 1944, the unfilled orders of large plants in the metal products industries averaged nearly a year's full production, whereas those of small plants averaged barely more than five months' full production. While it is true that only the large company and the large plant can produce certain types of heavy military equipment, this pattern of overuse and underuse was not limited to such cases. Relatively simple types of metal products showed the same pattern. For metal office and store fixtures the backlog of the small plants

was less than eight months and that of the large plants more than sixteen months. For metal pails, small plants had backlogs of between four and five months and large plants between nine and ten months. There were many other similar instances in which either the government or the civilian market or both went unduly short or waited an unduly long time because orders had been concentrated in the large companies beyond their capacity while the productive facilities of the smaller companies were less fully utilized.

The failure to use the resources of small business is most striking in the smaller communities that oftentimes depend upon a single enterprise or, at most, upon a few enterprises. During the Second World War, small cities came to my attention while a member of the Truman Committee whose few factories had been engaged in industries that are shut down or severely cut back in wartime. No one saw to it that these factories should be converted to war production, and relatively few of the persons who had been employed there left their homes to find employment elsewhere. The towns withered away. Not only their productive equipment but also their productive labor remained unused to a large extent in the war effort. Unless we take steps to prevent it, there will be similar pools of idle labor and idle machines in neglected communities throughout the United States during the present emergency.

The easy way of organizing industrial mobilization so that it depends chiefly upon large enterprises is not the efficient way of getting full production. The small companies are a part of our national capacity. Their output is a part of our national strength. An equal opportunity for them to produce is essential if we are to use all our muscle.

Thus there is harmony rather than conflict between the immediate needs of industrial mobilization and the longer run needs of a free enterprise economy. Competitive private enterprise is regarded by all of us as one of the fundamental expressions of our freedom and one of the fundamental supports as well. While we may differ among ourselves from time to time about whether a large company has acquired monopoly power that needs to be curbed, I think most of us agree that to keep private competitive enterprise we must preserve small business along with large business. We must avoid a long run trend toward even greater concentration of economic power. If the nation's industrial strength grew with each increase in concentration, we would face a serious dilemma because to keep our strength at its maximum for a decade or two we might find it necessary to jeopardize the survival of competitive private enterprise. Fortunately, this is not so. Strength now and healthy institutions in the future call for the same policies.

We can mobilize the maximum resources of small business if we want to do it and if we take the necessary steps soon enough. I shall not attempt to offer you a complete program for this purpose. I shall merely mention a few of the more obvious means by which we can, if we wish, counteract the tendency toward undue reliance upon large business alone.

We should make, and bring up-to-date from time to time, a study of the idle capacity available in the United States, particularly that in the hands of small business. We should also study the idle manpower that is available, particularly in the smaller communities. In the light of these studies, we should review the distribution of government procurement, of industrial sub-contracts, and of order backlogs for the sake of shifting orders from the

overused to the underused facilities and from localities where labor is short to localities where it is more plentiful. We should examine the size of inventories and revise allocations of scarce materials to avoid tying up such materials in congested establishments where their turnover will be slow. We should avoid withholding such materials from plants which could use idle facilities and idle labor if the materials were available.

We should set up special machinery for placing government contracts directly with small enterprises. We should use that machinery also to assure so far as possible that the subcontracts placed by large concerns shall go to small enterprises. The Smaller Warplants Corporation performed such functions well during the last World War.

We should make every effort to simplify government purchasing specifications so that they correspond as nearly as possible to ordinary commercial specifications for similar goods. There is now an interagency committee responsible for reviewing federal specifications. It could very well be used for this purpose. If it is used the inactive advisory committee attached to it should be revived, with a substantial new representation of small business alongside the representatives of large enterprises who are already included on the committee.

We should encourage expansion by small enterprises as well as by large ones. We should take steps to make available to small concerns loans and tax amortization privileges comparable to those that are extended to large companies that undertake strategically desirable expansion. Wherever practical we should encourage expansion in dispersed small units capable of being built and operated by small companies rather than in large concentrated units which, aside from promoting concentration of economic power, are more vulnerable to attack in this atomic age.

We should make production methods and techniques available to small companies as fully as possible. We should consider a policy of making research grants to small companies that have appropriate research facilities. We should consider requiring that technology that has strategic value and has been financed by the government be made available on reasonable terms without undue restrictions to concerns that will use it for mobilization purposes.

Steps such as these require exercise of judgment day by day in many varying situations. The first essential is a policy determination that the facilities of small business shall be fully used. But such a policy is not self-executing. The second essential, therefore, is a specific assignment of responsibility to one or more appropriate agencies to see to it that the policy is carried out by measures, among them those I have just suggested. Harnessed together for the duration small and large enterprise will make an unbeatable team. If this be accomplished we will emerge from this gigantic undertaking without injury to our free enterprise system.