ADDRESS

of

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The role of the giant corporation in American economic life has received so much attention that it has become more or less commonplace in our thinking. We are all familiar with the fact that a few giant corporations control a very large percentage of our total corporate assets, earn most of the total corporate income, and do a very large share of all business. That this phenomenon is familiar does not, however, mean that we can afford to neglect its implications. Plainly, if the giant corporation continues to absorb a larger and larger share of the total assets, income, and flow of business in the United States, the opportunity for the young man to enter freely into any business of his own choosing and be his own "boss" may cease to be a reality. Indeed, there are those who say that the opportunities for owning and working in one's own business are even now becoming fewer and that small business, as such, is ultimately doomed to extinction. I, for one, am not prepared to accept this grim eventuality; and, if it should occur, it would be a matter for extreme regret. For, with the passing of the small business unit from the American scene, there will have disappeared a creative force whose loss we can ill afford.

It is not to be overlooked that there are areas of resources that require for their successful exploitation the detailed and intimate knowledge of local conditions which only the small entrepreneur possesses. And with the tendency of modern business to become increasingly specialized and standardized, small business alone has the flexibility and adaptability for ready adjustment to changing demands.

Let me at this point recall to you the huge expenditure and wholesale overhauling of plant and equipment which the Ford plant required to turn out the first Model A car. Contrast this with the little cooperage concern encountered by one of our investigators, which, when the barrel-making business ceased to pay, used a part of its existing equipment for cleaning and renovating old barrels, and soon found itself in the "black" again. Or take the other case of the feather concern which, crowded by competitors in that trade, turned to the manufacture of shuttlecocks used in the game of badminton, and is now one of only two small concerns successfully engaged in that business. Small enterprise may have less hull than the full rigged corporation, but, like the racing yacht, it carries a greater spread of sail, has more speed, and can change its course more swiftly.

Small business has occupied an immensely important place in the history and development of this nation. It has been the generator of significant economic and social forces: it has been a pioneer risk-taker; it has displayed an adventurous spirit in the pursuit of profit; out of its competitive and individualistic nature has come a powerful stimulus for opening up new technological frontiers. Forfeit small business and these characteristics will in no small measure be lost to our American experience.

But there is still another characteristic of small business which is, perhaps, as important as those which I have already mentioned. I have in mind that in the numerous hamlets, towns, and smaller cities where the traditions of an earlier democracy are still to be seen, it is to the small business entrepreneur that the community looks for guidance. It is he who literally "mans" the town, formulates its social ~~standards~~, actively concerns himself with its educational needs, and stamps his individual character indelibly upon the whole of the community life. Now this may not be altogether an unmixed blessing as those of you who "know your small town" will agree. But it is not to be denied that the spirit of individualism of the men who run our small concerns is worth preserving.

In our preoccupation with the bigness of "big business," some of us have tended to neglect the essential interdependence which exists between little business and big business. I, for one, find it difficult to draw a sharp line of distinction between large and small business. Size without relation to place, or type of industry without relation to product, has little significance. A simple illustration will drive home my point: a garment concern with a $5,000,000 capitalization looms large in the clothing industry, but a concern of similar size in the steel industry cuts no ice.

Recent economic history has demonstrated only too clearly the interdependence of all business. We have learned rather painfully that a dislocation in one economic area affects every other economic area, as well as the prosperity of every segment of our population. When the heavy industries are depressed, the light ones cannot escape the consequences of that depression. When steel operations are curtailed, it means loss of sales to the grocer, the butcher, the drug store, and unemployment over a wide area. Our whole economic and social mechanism is geared up in such a manner as to require stability and constant progress in the activities of small business if *all* business is to avoid the devastating instability and general stagnation which occurs when one segment of business ceases to buy the products of the other.

Even if we were to attempt at some point to draw a line of distinction between big and small business, it would have no economic meaning because large firms have on their books the accounts of thousands of concerns of infinite variety from which they buy goods and to which they sell goods. Thus, the General Motors Corporation buys its supplies from about 15,000 firms and distributes its products through a vast organization numbering something like 20,000 dealers, the overwhelming majority of whom are small businessmen. A well-known paint concern is supplied with raw materials by 4,000 different companies and sells at wholesale to 30,000 customers; it has, in addition, 45,000 customers who buy in smaller quantities. A large steel corporation is supplied by 6,000 firms and sells to 6,500 others. One of the more important rubber companies obtains its supplies from 5,000 different sources and sells to 60,000 customers among whom are innumerable small enterprises.

In the case of the automotive industry, it is well to remember that its development has made possible a variety of smaller businesses, upon the success of which its own prosperity has become increasingly dependent. I need only call your attention to the taxicab industry, automobile retailing, and trucking to illustrate my point. And to emphasize the interdependence of all elements of our society, it is estimated that motor trucking operations alone normally employ well over 3,000,000 persons.

It is a familiar pattern of our American experience that the giant oaks of today were the small business acorns of yesterday. I refer again to the automotive industry -- one of the great mass production industries of our time -- which was developed entirely by small entrepreneurs. This interdependence of all business has been described aptly by Undersecretary of the Treasury John W. Hanes, formerly Commissioner of the Securities and Exchange Commission. In an article which he wrote for the *New York Times* Magazine he said:

> "...so-called big business is the Mississippi River of our industrial life, but little business surely may be likened to its tributaries. How long would it take the Mississippi to become a barren ditch if its tributaries ceased to flow? It takes a vast water shed of branches, creeks, lakes and rivers converging to make the Mississippi, and I devoutly wish that in our public thinking and action we could consolidate our purposes for recovery and forever divorce in our national policy the thought that we can have permanent recovery in America by developing a philosophy that little business and big business are alien as we struggle for complete unity of private enterprise."

Nor is small business really so small as to permit our neglecting it with impunity. Although only about one percent of the corporations in the country owns almost three-quarters of the Nation's corporate assets, roughly 40 percent of our entire economic activity is unincorporated. At least 60 percent of our entire economic activity is carried on by partnerships and individuals, and by small and medium size corporations. It is true that when the aggregate of all business activity is considered, particularly when exclusive attention is given to the aggregate of corporate enterprise, small business may appear to be submerged. But aggregates may sometimes hide the real significance of some of their constituents. When the whole picture is broken down into its component parts, we find that in certain branches of industrial activity small business looms very large. Indeed, in agriculture, in the service industries, in the manufacture of clothing and furniture, small business constitutes virtually all business.

May I give you some statistics which bear on this point? Unfortunately, adequate data for concerns other than corporations are not readily available. Take, however, the data with respect to corporations. From the 1936 corporate *Statistics of Income* recently made available by the Bureau of Internal Revenue, we find that for all corporations submitting balance sheets in 1936, 1.4% of the concerns with total assets of $5,000,000 or more -- the large ones -- owned 74.2% of the total corporate assets, and had slightly less than 42% of the gross sales. On the other hand, the corporations with assets of less than $500,000, which may be classified as "small," represented roughly 90% of all the corporations submitting balance sheets. But these companies had only 9.1% of the assets, although 32.3% of the gross sales were accounted for by them. In the same way, the still smaller corporations, with assets under $50,000, represented almost 55% of the total number of corporations which submitted balance sheets. But these concerns accounted for assets amounting to 1.4% of the total, although they supplied more than 8% of the gross business.

This is the over-all picture.

Let us now turn our attention to an industry in which small business plays a more prominent role. In the service industries, for example, we find that there were only 5/10 of 1% of companies with assets of $5,000,000 or more; they owned about 27% of the total corporate assets of that industry and did 15.4% of the gross business. On the other hand, 91.8% of the corporations in this industry fell into the small business category; they owned 29.1% of the total assets and did about 54% of the gross business in this industry.

Recognizing that small business is by no means as insignificant as is commonly supposed, you may ask how does it fare with respect to its capital and credit requirements? During last spring and early this summer, representatives of the Securities and Exchange Commission made a survey for the Temporary National Economic Committee of the capital and credit needs of small business. Our representatives interviewed hundreds of small businessmen in New England, the Southeast, the Southwest, the Middle West, the Rocky Mountain region, and the Pacific Northwest, studying balance sheets and learning financial needs. We found that venture capital was not in any appreciable volume finding its way into the small business sector of our economy. Our experience indicates that where modernization, expansion, and replacement of existing plant has occurred, it has been made possible largely through utilization of reserves set aside from previous earnings, rather than through the proceeds of new capital issues. This tendency to finance replacements and plant expansion through the utilization of business savings, depreciation, and other reserves appears to be widespread throughout the whole business area, as recent testimony before the Temporary National Economic Committee disclosed.

Now one of the traditional ways by which "savings" have been placed at the disposal of industry has been through the investment banking machinery. But even if the existing financial mechanism were to open wide our vast reservoirs of idle capital, it is extremely doubtful if small business would be benefited materially. This results from the fact that investment banking with relatively few exceptions is not geared up to handle small security issues; nor can our New York banking houses be expected to service the needs of small local enterprises. We are, therefore, confronted with an anomolous situation: while our national economic welfare is intimately tied up with the welfare of small business, our national financial machinery is, as Mr. Justice Douglas once observed, "geared almost exclusively to large business."

Parenthetically, I may say that it is in this very field of small business, which is so lacking in capital, that there exists a vast potential market for the machinery, fixtures, and equipment output of "heavy" industries. It is to the detriment of big business itself that this large market should be allowed very much longer to continue to lack capital and hence buying power. Consider the sales possibilities involved in a million or a million and a half small establishments with various conditions of underdepreciation and obsolescence: one wonders why big business has not itself placed a greater volume of money into this sector, or has not lent active support to the establishment of a banking machinery which would fulfill this need.

Turning to the credit needs of small business, our experience (as well as that of other students of the problem) has been that commercial banks generally regard loans for more than one year as "capital loans." They are, on the whole reluctant to use their depositors' money for the making of capital loans. Thus the small businessman, when he is able to obtain bank credit at all, must resort to the 60-90 day loan for his working capital requirements -- a situation which, I need hardly tell this audience, may make for extreme hardship.

As the testimony before the Temporary National Economic Committee discloses, a heavy proportion of the small businessman's working capital is today being obtained from the factor, the finance company, the commercial credit concern, and the supply house. The rapid growth of this type of banking, outside of the regular banking field, is a comparatively recent development; and, I may add, it is fairly widespread. There are hundreds of these lending institutions of every size and type, large and small, whose interest rates and service charges run all the way from those which are not unduly excessive to those which are clearly extortionate. These extra-banking organizations have virtually taken over the field of small business financing. They, rather than our commercial banks, have developed the necessary technique and machinery for handling small business financing.

The conclusion is inescapable that these new banking sources for commercial loans have grown largely because there has been a compelling demand for funds which they alone were willing to supply. In passing, I would point out that here lies an unregulated credit area where in many instances abuses prevail. Since small business must have capital and credit and is currently unable to obtain it elsewhere, it is paying -- and is willing to pay -- a heavy price for the accommodation which these newer forms of banking provide.

Surprisingly enough, our investigators found that the growth of these extra-banking facilities and their invasion of the traditional lending field was neither particularly regretted nor feared by the commercial banks. On the contrary, bankers generally spoke complacently of these institutions. And, in fact, to no small degree commercial banks are themselves financing the finance companies. To an extent not generally appreciated, it is they who are providing the funds which the finance companies relend on the very collateral which was unacceptable to the banks in the first place.

Another source of credit for the small business unit is, and will probably continue to be, trade credit. In one community, a sample study revealed that of all credits outstanding to small business concerns, 65% were trade credits; 24% were finance company or other extra-banking credits; and 11% were bank credits. Now as every small businessman knows, trade credit is comparatively easy to obtain. But, as every small businessman likewise knows, he who becomes unduly indebted within his trade is likely to suffer penalties in the way of loss of freedom to buy elsewhere, as well as render himself subject to demand for payment at times when the business can least stand it. In part, it has been the pressing anxiety to avoid such consequences that has driven the small businessman -- unable to obtain credit from the normal banking channels -- to the finance company.

There has been a growing realization that the conditions which I have just described are inimical to the continued existence of a free and healthy economy. During this session of Congress, no less than 15 bills designed to provide aid to small business were introduced, the most widely publicized being the Mead-Allen Bill. Whether or not Government will come to the aid of small business through the establishment of regional capital and credit banks, or through a method of loan insurance, as advocated by Senator Mead, it is plain that the financial predicament of the small businessman cannot long be ignored if we are to maintain a healthy and competitive economic order.

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