SMALL BUSINESS AND NATIONAL SECURITY

25 January 1957

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United States Senator Leverett Saltonstall of Dover, Massachusetts, began his career in Washington after serving three consecutive terms as Governor of the Commonwealth, a period embracing the war years. He was elected to the Senate in November 1944. He was elected to fill the then unexpired term of Henry Cabot Lodge, Jr., resigned, ending 3 January 1949. He was reelected November 1948 for a six-year term and reelected 2 November 1954 for another six-year term. His present committee assignments in the Senate are: Armed Services, Appropriations, Small Business and Republican Policy. He is also the Chairman of the Republican Conference. As Senator he has been closely associated with the following national legislation: International Aid, Military and Economic, Selective Service, Unification of Armed Services, Veterans' Benefits, Fair Employment Practices Legislation, National Science Foundation, Child Health, Immigration Liberalization, and Antifilibuster. He received his A. B. Degree from Harvard University in 1914 and his LL. B. Degree from Harvard Law School in 1917. Fraternal Organizations: Mason, Elk, Grange, American Legion, Veterans of Foreign Wars, Ancient and Honorable Artillery. This is his first lecture at the Industrial College.

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GENERAL HOLLIS: Since our course began, we have heard many times about the problems of small business. When you stop to consider that out of the approximately four and a quarter million business firms in the United States, something in the order of four million are rated as small businesses, it is quite evident what an important segment of the United States economy they constitute. This morning you will hear this problem discussed from a new angle, to wit, national security and small business, by one of the people best qualified in the entire country to talk on it.

Our lecturer this morning, as you know, is Senator Leverett Saltonstall, of Massachusetts. He is, I need hardly inform this audience, one of the most objective and respected statesmen in our Congress, and it is an honor to present him to this class.

Senator Saltonstall.

SENATOR SALTONSTALL: General Hollis and Gentlemen: May I say that I appreciate the introduction that General Hollis has just given, but I am always scared by that word "statesman," because I have heard a statesman defined as a dead politician and I don't want to be a dead politician.

Now, as to small business, we have, I suppose, more small business concerns in Massachusetts, or in New England, proportionately than in any other part of the country. In that way I have come in close contact with its problems. I have also been a member of the Small Business Committee of the Senate since its inception as a formal committee of the Senate. I have been able to follow the problem from that point.

Throughout our Nation's history, small independent business units have been recognized as a basic and indispensable element of our free enterprise system. The inherent strength of our industrial life is a direct result of the freedom of opportunity for every citizen, possessed of the necessary energy and talent, to strike out for himself, to start his own business. While more attention is given this subject now, we can go back to 1890 to find in the passage of the Sherman Antitrust Act legislation designed to preserve the competitive structure of our economy.

The question of the position of small business in our economy is neither new, nor is it partisan. It is, however, vital. You will remember the activities of Theodore Roosevelt and Charles Evans Hughes, many years ago.

The interest in small business which has been generated during the past decade has been based on a very real concern that our competitive system is weakening. I would like this morning to point out where these weaknesses have occurred; examine some of the attempts which have been made to help small business; and, finally, to suggest to you further steps which may be taken.

What is small business?

Let us first deliniate the area for discussion. There have been many definitions of small business. The Defense Department has one, the Bureau of Internal Revenue has another for its purposes, and the Small Business Administration has still another.

The Department of Defense considers for procurement purposes that all firms with less than 500 employees, including affiliated, are small. This particular definition originated in the Selective Service Act of 1940. I will not go into details about it. The Bureau of the Census considers all manufacturing establishments with less than 100 employees as small, while the size of the distributing firms is determined by the volume of sales. The Bureau of Internal Revenue in its statistics on income separates the small from the large at the figure of $250,000 of total assets. Only this month the Small Business Administration, in cooperation with military and civilian procurement agencies, promulgated a new definition for procurement purposes. This definition provides that all concerns with under 500 employees can certify that they are small. Firms with more than 500 employees may apply for a certificate to the effect that they are small; and on protest a firm with less than 500 employees may even be declared not to be small business.

An examination of congressional and administrative definitions of small business reveals two important things: First, Congress cannot and should not attempt to legislate a specific detailed definition. Legislation can only establish the broad criteria upon which a definition can be made. Secondly, any definition of small business must be flexible, with particular consideration given to nondominance within a particular industry and to independence of ownership and operation.

The most important thing is to understand the problem of small business. Our aim is to maintain a vigorous competitive system, with unlimited opportunity to establish new enterprises, and, through the prevention of unfair competitive practices, the opportunity to compete in every market and to grow. More than ever before, we must bulwark our competitive system by guaranteeing small business an equal opportunity to compete.

Scope of small business.

It is only when we consider small business in terms of total numbers that we can make a start toward understanding the essential significance of the community of independent enterprises and their vital contribution to our Nation's welfare.

Since 1939 our business population has increased in step with our population, the increase being respectively 28 percent for the business and 27 percent for the population. At the start of 1956, our vast industrial and commercial complex was made up of about 4,250,000 firms. Of these, more than 95 percent are classified by definition as small business. For the purpose of our discussion today about small business and national security, I shall dwell only upon the manufacturing segment of our economy in any defense mobilization program.

In the aggregate, these small companies account for a staggering 98 percent of all plants. They provide the payrolls of more than half of all workers employed in manufacturing. I think of that figure when I think of General Motors, General Electric, IBM, and some of those concerns. I remember that small business still provides over 50 percent of the employment of the millions of people who are in industry today.

Causes of small business problems.

Why is it that the competitive status of small firms has become such a serious problem in the past decade? Two wars, partial mobilization for defense, and unprecedented demand for civilian goods have all combined to increase our productive capacity as a Nation and to unleash new and intensify old competitive difficulties. During the world wars and the Korean War small business had particular difficulties. In each instance the full mobilization of productive facilities, with emphasis only on implements of war as the end product, meant hardships for small business. Specifically, this mobilization for defense meant curtailment of civilian production and the imposition of controls on manpower, strategic materials, prices, and wages.

Larger firms are better able to convert quickly from civilian to military production. Small business is less able to compete for scarce materials and for skilled labor or to expand plant facilities.

Larger business, with greater physical resources and abundance of engineering skills and financial resources, caused procurement officers to award the vast majority of prime contracts to larger firms.

The construction of productive facilities with Federal funds and the abandonment of competitive bidding in the awarding of contracts are procedures which certainly violate our concepts of free enterprise. Even though they may well have been necessary in time of war, these procedures acted against the interests of small business.

The characteristics of small business.

I should like to discuss some of the characteristics of the small business concern and some of the problems confronting this type of company today. These characteristics are in part the basis for many of the difficulties encountered by small business concerns.

Small business is subject to greater fluctuation in its profit rates. This characteristic also makes it difficult for a small business to accumulate long-term investment to put back into the firm, thus making frequent borrowing necessary. Outside investment is discouraged.

The tax problem is a very important one, because it takes so much in taxes, if they make money, that they haven't enough money to put back into the industry with what depreciation they may have been allowed to build up. That is one of the great problems today, because banks cannot make long-term loans.

Perhaps the greatest problem of small firms today lies in long-term financing. This difficulty results from both the impact of taxes, as I have said, and the difficulties in obtaining credit. Local banks are often not in a position to advance long-term credit, both through legal limitations and their own requirements to remain liquid. That is particularly true today. These obstacles have acted as a hindrance to greater participation by small business in Government procurement.

I also doubt if small business has participated fully in the use of progress and advance payments supplied by procurement agencies. Many small businesses producing for the Government cannot meet the criteria governing the issuance of such payments.

The Senate Small Business Committee.

During the period 1940-1950 temporary small business committees had been established in each Congress. In 1950, during the 81st Congress, the late Senator Kenneth Wherry sparked a successful effort to make the Senate Small Business Committee permanent. As a member of the committee since its beginning, I am convinced of the wisdom of establishing it. It has operated in a nonpartisan fashion and has worked in cooperation with other permanent committees where interests overlapped.

For many years now the Senate Small Business Committee has carefully reviewed military procurement policy and procedures. Its studies and recommendations have been conducted in a nonpartisan fashion and have been made to not only insure more efficient procurement, but to insure a better opportunity for small firms. It has been our philosophy that, given an opportunity to participate, small businesses may in many instances compete with larger firms on a price basis.

We have found, however, that small firms have difficulty in securing adequate information on proposed procurements or in securing specifications and bid sets. It is certainly to the advantage of the Government to insure the widest possible dissemination of information. Procurement agencies must provide small firms with every opportunity to be placed on bidders' lists or to have their products placed on qualified products lists. While military departments insist that negotiated procurement procedures do permit competition, I doubt that they permit full competition. I have constantly worked to try to get procurement agencies to seek additional sources of supply among small business concerns, and that applies, as I have said, to us in New England very specifically.

Our committee has continually recommended that negotiation be reduced in as many instances as possible and that advertised procurement become the rule rather than the exception. Admittedly there are billions of dollars worth of procurement which may not be susceptible to performance by small business concerns acting as prime contractors. It is obvious on an airplane carrier or, for instance, a B-52. This is perhaps particularly true today in the age of electronics and guided missiles. In such instances the role that small business must perform is that of a first- or second-tier subcontractor.

It is necessary with a weapons system concept of procurement that everything possible be done to encourage subcontracting to small business

concerns. There has been a tendency, however, for many prime manufacturers with Government-furnished equipment to retract work which had formerly been performed by independent small business concerns. As a matter of fact, current renegotiation procedures do not encourage subcontracting. You gentlemen can see that very clearly, because if renegotiation brings the price down and the profit down, the contractor, particularly when time is not so important, will do everything he can to get as much profit as he can rather than to subcontract.

I believe the entire subcontracting program within particular industries would bear intensive study. For instance, we should determine what duplicate facilities have been established by prime contractors, what relative costs are between use of Government-furnished equipment and independent subcontractors, and if sufficient inspection of administration of prime contracts has been exercised by procurement agencies.

Another problem which confronts small firms bidding on Government contracts is the size of various procurements. While the bid as let can be performed only with facilities of a large concern, multiple awards would permit small firms to enter the picture. I realize that this is sometimes difficult of accomplishment.

Similarly, unrealistic delivery schedules preclude small firms from participating. During the national emergency such delivery requirements may be understandable; today many of them cannot be justified. Too frequently an invitation to bid is placed on an emergency basis, with delivery required in thirty to sixty days. For one reason or another, the bid has been cancelled, readvertised, and delivery actually has run into six months or more.

One of the greatest hurdles any small businessman or association of small businessmen has to surmount is the reluctance of contracting officers to go along with an untried company. This antipathy may be a basic element of human nature and not, as some small businessmen believe, an acquired administrative attitude.

Just as we were coming over this morning, my assistant, who was in the procurement business in the Navy, stated to me that the Secretary on one particular occasion did decide on an award in favor of a small business firm which the officer in charge had recommended that he should not do. As a result of that this untried small business firm developed some new method which for the time being at least put the Navy away ahead of the Army and the Air Force on that particular item.

Much has been said recently with regard to the participation of small firms in research and development work. I believe that an intensive study should be made with a view to increasing the share of small business in this field. Here again proprietary interests developed in wartime are carried over into the peacetime economy, altering the competitive structure of many industries. Small firms must, to remain strong, share in these benefits.

By the nature of things, a research and development contract for a new product is important for any company to acquire. Should the product developed be one that the military will eventually use in large quantities, the developing company will often find that it has a long head start over its potential competitors for a profitable production contract for the new item.

I know that on a big scale--in fact, this is not a proper example--on the Aircraft Carrier Forrestal, I think it was, which was built in Norfolk, we tried to get a contract for the Fore River Shipyards in Quincy. The Norfolk people could underbid us on the next carrier because they had had experience on the first carrier. Consequently our bids were way above the Norfolk bid. That is perhaps not a strict example of what I mean, but it does show the advantage that a company has when they do pioneer in an effort.

For the period 1 July 1955, through 30 June 1956, small firms obtained less than six percent of the more than $2,341,000,000 which was spent by the Department of Defense in research and development work. Here, then, is a specific area of procurement which presents a challenge to Government procurement officers. It should not take much effort to expand the small business share of research and development contracts--an objective, I feel certain, which is both desirable and obtainable.

The military agencies and other agencies of the Executive are constantly making plans for the mobilization of the Nation's productive resources. It is most important that such plans provide for the greatest use of the small business potential. They must provide for equitable allocation of scarce materials, machine tools, and manpower, with serious consideration being given to the impact of any controls which will be considered necessary. Consideration must also be given to the need for financial assistance and tax benefits. Above all, these plans must be formulated well in advance. In both World War II and the Korean conflict, consideration for the particular needs of small business came too late to prevent damage to their competitive position in the economy.

Finally, in regard to procurement, I wish to state most emphatically that the consideration which will be given to small business depends not just on the laws enacted by Congress, but primarily on the attitudes of the men who administer these laws. A constructive attitude must prevail from the highest echelon down, through the contracting officer and the plant inspector. It is most important that all in authority understand the vital and essential role of small business in our economy. They must understand that small firms require at least equal opportunity, free of manmade impediments. In such a climate they can, with their own know-how, compete in many instances with much larger concerns and contribute significantly to our defense efforts. It is also most important that every man having a procurement function understand the impact on our economy of contract awards amounting to billions of dollars a year.

Task before us.

When we think of small business in terms of a future emergency in which our entire industrial potential must be mobilized, it can be seen that the task before us is twofold. Obviously, the first phase of our problem is to do everything we possibly can now to help maintain an economic climate in which small businesses prosper and stay strong. This is essential for the reason that when the time becomes necessary for the Government to call upon the facilities of small manufacturers, either as prime or subcontractors, those facilities should be as vigorous as a profitable peacetime economy can make them.

The second phase of our task should be to take advantage of the present to prepare small producers to assume their responsibilities in the event they are needed, as they have been in the past, for some future emergency. In brief, the present should be utilized as a period of training for small business in the theory and practice of becoming suppliers to the Military Establishment.

Here again the best teacher is experience. Smaller businessmen, therefore, can become much better sources of supply for the Government during a future emergency if they can learn how to do so before the emergency develops.

It is abundantly clear that in order for small business to fully share in defense procurement, a great responsibility rests upon the contracting officers and procurement policy officials of the Department of Defense.

The defense official must take more than a localized interest in the welfare and prosperity of small business. I have described in the last few minutes some of the difficulties which small business has in sharing opportunities with larger companies for defense procurement. Now, perhaps with some repetition, there are several points which should be considered by defense officials in respect to small business procurement.

First, in the all-important matter of attitude, it is essential that those responsible for spending the procurement funds which Congress appropriates have confidence in the ability of small business. It is only natural for a contracting officer, who is responsible for the success of a particular development of production project, to look to the most experienced large producer. It is necessary to take what may be termed a calculated risk at times in selecting a smaller business when it is capable, so as to better establish its capabilities for defense work. The need for a wide mobilization base in time of national emergency dictates that contracting officers and procurement officials exercise great care and judgment in awarding, wherever possible, contracts to small companies, even though we may have a greater degree of confidence in the larger and tested ones. I cited one example of that just previously. Every effort should be made to cooperate with the Small Business Administration in its effort to provide new sources of supply.

Second, contracting officials for the Department of Defense must bear in mind the inherent limitations of small business to cope with the administrative complexity of Government contracting. We can greatly assist the role of small business in our defense picture if we keep to the simplest form and amount of administrative and paper work demanded of our suppliers.

I brought over here what has been shown to me as just a bid for the Navy. These are small firms, with a few secretaries and perhaps no lawyer, which have to fill out all those papers. Compare that in the Navy with the same thing in General Motors. Here is a purchase order of General Motors--one sheet of paper to fill out, with instructions on the back, as compared with all of that in the Navy. That is what a small business fellow is up against. And I can say with a smile, as a politician, if you will, as a United States Senator, that I know some of you gentlemen feel the same way about paperwork in the Defense Department.

Third, Defense officials should become thoroughly familiar with and utilize to the maximum extent possible the established small business

set-aside procedures. These are designed not only for the benefit of small business, but for the benefit of our entire Defense Establishment. That set-aside procedure, I think, is beginning to be better understood.

Fourth, every attention should be given to the possibility of rendering financial assistance through established contracting procedures to small businesses who compete for Government work.

Fifth, delivery schedules should be as realistic as possible, with particular care in peacetime to the limitations of small business to adapt to emergency programs. This should be watched with the utmost care.

Sixth, advertised procurement is, of course, the most desirable method except when circumstances will not permit it. Great care should be given to the maximum use of advertised procurement. When negotiated procedures are deemed necessary, contracting officers should insure as much participation as possible by small business.

Seventh, when amendments and changes are made to a contract which is being handled by a small business, every effort should be made to administer these changes with the greatest dispatch, inasmuch as the company may not be able to sustain the financial burden involved for a protracted period.

Let me give you one instance of that with which I personally came in contact. We had a small shoe company in Massachusetts making Army shoes. The methods of procurement were changed. The company went on and from time to time its financial credit with the bank ran out. What happened? Because there was delay through the Army moving from one headquarters to another and the paperwork got delayed, that company went into bankruptcy and had to be liquidated.

We put in a claim for Congress to pay for that damage. The military admitted that they had delayed from six months to nine months. This was during the war; and that company, a reputable small company of long life in Massachusetts, was completely put out of business because most of its business was with the Government, all of it at that time; the Government delayed its payment; and it had to be liquidated. We put a claim through Congress, and I think we finally got them some $86,000 of Government funds. But that man had to get a new job. It was a family business and it was completely put out of business because of Government delays which could have been avoided.

Finally, procurement officials can help tremendously by educating all of their personnel as to the importance and need for developing the potential of small business and supporting them where they take the responsibility.

Much progress has been made during the past decade, through legislation and through administrative programs, in our efforts to develop a sound and strong small business segment in our economy. Much still needs to be done.

Responsibility of Congress.

Many acts of Congress have provided the legislative authority for financial assistance programs, procurement programs, and even agencies specifically designed to be of assistance to small business.

To devote special attention to the maintenance of small business and our free enterprise system, Congress has created the Senate Select Committee on Small Business as a permanent committee.

Congress has expressed its concern for the survival and welfare of small business by incorporating small business provisions in every basic procurement statute enacted since the end of World War II. These provisions clearly establish a policy with respect to the utilization of small business facilities in defense and civilian production. The Armed Services Procurement Act of 1947, the Selective Service Act of 1948, the Federal Property and Administrative Services Act of 1949, the Defense Production Act of 1950, and others have all provided that small business must receive a fair share of Government contracts. Congress has not legislated, nor does it seem advisable to do so, what is to be considered a fair share of Government contracts. The percentage of military net procurement going to small firms has fluctuated annually between 32 and 16 percent since the end of World War II. It is clear that Congress does believe that every effort must be made to open up and to increase the small business share in every type of procurement.

Three times Congress has established an agency to deal specifically with the problems of small business. During World War II the Smaller War Plants Corporation assisted small firms to secure Government contracts and financial assistance. In 1952, in an amendment to the Defense Production Act, the Small Defense Plants Administration was established to assist small firms during the Korean emergency. Believing that financial, procurement, technical, and managerial assistance was necessary

in peacetime as well as during emergencies, Congress established the Small Business Administration in 1953.

Defense Department's responsibilities.

Through various directives the Defense Department has broadened its cooperative relationship with the Small Business Administration, and it has instituted the beginnings of a small defense subcontracting program.

In many instances the use of emergency procurement and short delivery schedules has been corrected. Wider dissemination of procurement information has been accomplished. I believe that throughout all the military procurement agencies there is now a greater realization of the need for consideration of the problems of small business.

Small Business Administration.

May I devote a few minutes to a discussion of the operations of the Small Business Administration, for it is this agency which is the culmination of congressional attempts to render all types of assistance to small business.

Primarily the SBA was designed by Congress to be the spokesman for small business among the executive agencies. Small business concerns cannot afford to have representatives either in Washington or at procurement centers throughout the country. It is for this reason that Congress designed the SBA as an independent agency, not affiliated with or within any other department or agency. I believe that past experience dictates the need for such independence.

I personally had quite a discussion on that subject with my friend and classmate at Harvard, Sinclair Weeks, Secretary of Commerce, who strongly believes that the Small Business Administration should be within the Department of Commerce. There are a good many arguments for that. But if you put it within and under the Department of Commerce, then it is not independent. It cannot fight for small business as an entity compared with all the other interests that the Secretary of Commerce must consider. I oppose the feelings of Mr. Weeks in that regard, and Congress has felt very strongly about it.

Of primary importance to small business is the SBA financial assistance program. Recognizing that small firms are frequently unable to secure intermediate and long-term credit--and I cited the reasons for

that earlier--Congress provided that the SBA may make working capital loans, loans for the purchase of machinery and equipment, and loans for expansion of plant and facilities, with maturities as long as ten years. Since the taxpayers' money is being used, and since this is not a subsidy program, the SBA legislation stipulates that all loans must be of such sound value and so secured as to reasonably assure repayment. That has been well handled up to the present time.

In three years of operation the SBA has approved business loans for a total of $235,750,000. In fiscal year 1954, 473 loans were made for $27,739,000; in fiscal 1955, 1,172 loans were made for $55,975,000; in fiscal 1956, 1,915 loans were made for $81,977,000. To date in fiscal 1957, 1,600 loans for $70,059,000 have been made. Almost two-thirds of the 5,160 business loans approved have been in participation with local financial institutions. Congress itself desired that the local banks be encouraged to extend at least part of the financial assistance desired by small business, for in such a fashion can lines of credit be established for future purposes.

In addition to making loans, the SBA's financial specialists engage in financial counseling, enabling a firm to rearrange its accounts or to better present its case before a local bank so that a Government loan is not needed.

I have had several instances of that. One was with a wholesale meat man. He wanted to get SBA loans to build up his wholesale meat business. What he needed was consultation rather than a Government loan. I firmly believe that as long as private financial institutions are unable or unwilling to privide adequate credit to sound though weak credit-wise small business, the Congress will insist on the existence of a Government program to fill this credit gap.

The SBA has developed a cooperative program whereby it may assist small firms to secure tax amortization certificates. Agencies in charge of the issuance of such certificates have agreed to allow SBA to secure and present additional information which will more adequately reflect the need for such certificate. As a matter of fact, I personally feel that this agency should be given a more positive role in the issuance of such certificates. I think that that branch of this work is perhaps becoming less, because of the attitude of Mr. Humphrey, Secretary of the Treasury, on this whole tax amortization problem.

When a small business has been declared by a procurement officer to be ineligible to receive a contract upon which it was the low bidder,

the SBA is authorized by law to issue a certificate of competency when it believes this firm to be both financially and technically competent. And that is very important.

Once such a certificate is issued by SBA, the law provides that contracting officers must accept it as conclusive so far as financial and production requirements of the contract are concerned.

So far contracts have been awarded to 250 small companies for a total of $30,546,000 as the result of this program. These certificates of competency were issued to small producers, all of whom were low bidders or within negotiating range, after a thorough investigation by SBA showed that they were in fact, by reasonable standards, both financially and productively capable of performing the contract in question.

It goes without saying that for the SBA to override the judgment of procurement officers on the competence of a small company places a very heavy responsibility on the certifying agency. SBA meets this responsibility by maintaining a continuing interest during the full life of any such contract. Should the contractor encounter difficulties in meeting production schedules because of technical or other problems, SBA stands by to offer such assistance as may be necessary.

From the point of view of national security, what does this certification procedure mean? As I see it, it means that here are some 250 small companies, most of which were undoubtedly an unknown quantity to military procurement officials, which are now gaining invaluable experience as suppliers to the Army, Navy, and Air Force in peacetime.

The Small Business Administration is authorized by law to examine particular procurements to determine which are suitable for performance by small firms. Upon agreement by the contracting officer, all or part of the procurement may be set aside for exclusive bidding by small firms. From August 1953, through September 1956, $1,250,000,000 worth of Government purchases have been set aside for small business as a result of this joint determination procedure. Perhaps this is a major reason why in the case of the Department of Defense prime contract awards to small firms have been proportionately greater in the past few years than during the Korean War. In 1954, new military prime contracts to small businesses were $2.9 billion; in 1955, $3.2 billion; and in fiscal 1956, $3.5 billion.

SBA procurement specialists have been most active in assuring small firms adequate information concerning procurements on which they are

capable of bidding. Referrals of both prime and subcontract opportunities are made. In addition, the agency assists small firms to get on bidders' lists or qualified products lists.

Finally, the SBA has been most active in providing small firms with the latest information on technical and managerial subjects.

It can be seen that all of these programs have been designed to assist small firms in those areas where they have encountered difficulties.

President Eisenhower in his message to Congress on the economic report two days ago has recommended that the Small Business Administration, which is due to expire on next July first, be continued beyond that date; and I sincerely hope that his proposal is approved.

Now, if you gentlemen are interested in this subject particularly, I recommend that you read a small pamphlet that I think is the most informative of any small pamphlet that there is, that is, the Report of the President's Committee, which was issued last August.

President's Committee.

As a member of the legislative branch and as a member of the Senate Small Business Committee, I was mightily pleased to see the establishment of a President's Cabinet committee to study the problems of small business. I also believe that the recommendations published in its first progress report, dated 7 August 1956, will be of help in guiding the various agencies concerned. Among other things, the Cabinet committee has recommended that the need for advance and progress payments should not be treated as a handicap in the awarding of a contract. Consideration is also given to the need for adjusting our thinking on renegotiation to the public policy of increased subcontracting. Of particular interest is the recommendation that there be a comprehensive review of procurement policies and procedures.

The President's Cabinet committee's report also contains constructive proposals with regard to tax relief and the continuation of the Small Business Administration. It makes, I think, some sixteen recommendations. Some of the administrative ones have already been carried out. Bills are filed in the Congress for some of the others.

Free competition for small business--conclusion:

I have tried in this discussion to give emphasis to what I consider to be a few basic aspects of small business, chiefly small manufacturers, in

relation to our national security. As you know, New England has a higher density of small independent business than any other section of the country. As suppliers, present and potential, to the Government, they have one quality which many larger companies lack; that is, flexibility. They are easy to work with and can adjust themselves quickly to specification and schedule changes, because they are not burdened with a corporate bureaucracy. Those familiar with a production record of small plants during World War II and Korea are not inclined to belittle the contributions made by small companies.

I believe that the role of small business in our economy is best summed up in these words from the Small Business Act of 1953:

> "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 initiative 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 capacity of small business is encouraged and developed."

That was the preface of the Small Business Act of 1953.

The free enterprise system, from which we derive our strength and upon which depends our national security, has always been anchored and must always remain anchored to the welfare of the millions of small and independent companies which are the bedrock of our industrial democracy.

Thank you very much.

CAPTAIN WRIGHT: Senator Saltonstall is ready for your questions.

QUESTION: In your hearings or in your study of the small business problems do you discover any relationship between big-scale organized labor and the problems of small business?

SENATOR SALTONSTALL: I don't think that that has come in on any committee hearing or any discussion that I have heard up in the Small Business Committee in the Senate. You hear that and you read about it in the papers, but I have never heard it actually discussed in Congress that I can remember.

QUESTION: Senator, in discharging their many duties, contracting officers are confronted with a multiplicity of objectives that they try to satisfy. They range from small business to surplus plants and labor-surplus areas in satisfaction of a policy that was laid down by the Office of Defense Mobilization. My question is this: In the satisfaction of those objectives, or in attempting to do that, inevitably there is a collision. Would you care to comment on what priority, if any, should be given to satisfying the small business objective as compared to any other?

SENATOR SALTONSTALL: I would say that your Government procurement officer would try to get the best out of it that he possibly can for the Government. That goes without saying.

It seems to me that small business should be given a high priority. I should think, if I had to judge quickly, that a disaster area should come ahead even of a small business concern if it was a real disaster area. We had that experience up in Lawrence, Massachusetts, where after a good deal of effort we got a contract up there on a distressed-area basis. Then the Government agency found that by putting that contract up there, it was creating another distressed area out in Arizona. That just made my heart sink, because we worked like the devil to get this contract. I think that has been pretty well cured by the suggestions in this President's Committee Report.

I think, to answer your question specifically, I would put a disaster area above small business; but I would put small business up wherever you could do it and get the same quality of products for the Government, and even if you had to take a little risk in getting the same quality.

I would suggest to you gentlemen that if you are interested, I think the best article on small business for you to read is this progress report of the President's Cabinet Committee on Small Business, dated 7 August. That combines in a very few pages really many of the problems as I have tried to state them.

QUESTION: As Government procurement officers I think we are caught in a dilemma between strict regulations of procurement which come from Congress and that account for a few of those pages in that bid form. With this complicated system of procurement we must try to get a contract fulfilled. So far the measures to help small business are more or less artificial and therefore are uneconomic. If we would like to carry them out fully, we would be doing things more or less the hard way. Would you give your comment on the graded tax structure

which would assure a higher rate of return for small businesses as a means of putting them in a better competitive position?

SENATOR SALTONSTALL: I think Congress may act on that subject this year unless the Secretary of the Treasury and the powers that be exert a great deal of effort against any tax changes. And they may have to.

I think you can put the productive income, the gross income, at whatever figure you want, $250,000 or less. On the small concerns I think we should cut down the tax if we can do it properly. I say that because, as I tried to point out, of the need of new capital. That's one of the greatest restrictions on small business today--to find new capital. If they pay a 50 percent corporation tax, all they have to put back into the industry after paying the salaries of their executives and after any possible dividends that they want to pay, is just their depreciation, which is a comparatively small figure. To get long-term credit from the banks is very difficult, and to get new investment outside of the family or outside of the persons particularly involved is very difficult. That's one of the great problems of small business.

QUESTION: One of the figures that you quoted was 400,000 manufacturing businesses. Then on small-business loans you quoted a figure of approximately 5,700 loans total to date. A little fast arithmetic indicates that that amounts to about 1.5 percent. But in your other discussion you indicated that one of the troubles of small business is the availability of capital. Yet only 1.5 percent of manufacturers over the entire time have come for loans. Would you clarify what is holding them back?

SENATOR SALTONSTALL: I don't think anything is holding back small business from coming, judging from one Senator's correspondence and interviews. The question is the amount of the appropriation, and certain restrictions, if you want to call them that, or qualifications that the SBA has set up to try to get these loans started on a sound basis and on a basis that will be helpful. For instance, if a concern can go to a local bank and get the money, then it certainly shouldn't have any SBA money. If they can go to a local concern for most of their money and the SBA puts in a little, that's better. All those things take time. If they can't get any money from their bank, then the SBA has to consider whether that is a risk they want to take entirely.

Now, the amount of money available is approximately, I think, 152 million dollars. That doesn't go very far in this whole setup. But I

think what Mr. Barnes is trying to do is to get this set up on a sound basis so that the loans will be paid back. So far, from what I have heard, he's done a pretty good job on that basis.

STUDENT: I would like to suggest that there is another cause that you didn't mention that has been working in small business. You mentioned this area of urgency that at times works against a small business. I think there has been a factor in the last two years that has increased that factor of urgency and made it very great, and that is the allocation of funds that now takes place after the funds are passed by the Congress. It used to be that the funds became available on the first of July or whenever the Congress passed the funds. But now there is a very considerable time period--and it does stretch out into months--in the allocation of the Bureau of the Budget, and then subsequently by the Department of Defense and the various departments. I think that if that allocation program were looked into, you would find that there is a factor there.

SENATOR SALTONSTALL: I agree with you on that. There you run into the question of having the Defense Department spend 38.5 billions of dollars. When you get talking of those figures, neither you nor I or anybody knows what we are really talking about. The problem is that you get those tremendous funds allocated so that they will be spent the proper way.

Now, Congress puts restrictions on that. We are hearing now Mr. Dulles on the Middle East. One of the problems that the Administration wants to get over with is the fact that 80 percent of the funds in the mutual security have to be obligated before June 30th. Now, Congress put those restrictions on because procurement officers and high Defense Department officials would come along down to about June 20th or June 30th and say: "If we don't get this obligated before June 30th, then Congress is going to cut us away down on our funds next year." So we put on these restrictions. That's one of the reasons, I think, for having allocations.

STUDENT: I'd like to clarify that, if I may. I am not referring to allocations by the Congress. I am referring to allocations by the Bureau of the Budget and by the Department of Defense. After the Congress has actually made the funds available, the departments still don't get the funds to spend until months later. In the meantime urgency occurs in the need for the product and for supplies, and so we have to give these 30-day deadlines and 90-day deadlines that are difficult for small business to meet.

SENATOR SALTONSTALL: I agree with everything you say. I restate what I think is fundamentally the problem. That is the tremendous amounts that are being appropriated and have to be spent. That leads into allocations. I think you may find that the bill introduced this year by Senators Paynes and Kennedy and which I am a composer of, will help this situation somewhat by improving the budget and accounting methods. I agree that that is one of the problems between Congress and the procurement agencies and the people who are responsible for keeping expenses down.

CAPTAIN WRIGHT: We thank you very much for a very interesting and informative morning.

SENATOR SALTONSTALL: Thank you, and I thank you, gentlemen, for listening to what I would consider a very technical discussion.

(14 Mar 1957--3,950)B/ebm