

MILITARY PROCUREMENT AND THE SMALL  
BUSINESS ADMINISTRATION

2 January 1958

CONTENTS

	<u>Page</u>
INTRODUCTION--Rear Admiral S. R. Clark, USN, Deputy Commandant, Industrial College of the Armed Forces .....	1
SPEAKER--Honorable Wendell B. Barnes, Administrator, Small Business Administration .....	1
GENERAL DISCUSSION .....	26

Publication No. L58-77

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Honorable Wendell B. Barnes, Administrator, Small Business Administration, was born in Ponca City, Oklahoma, 23 August 1909. He is a graduate of Culver Military Academy, Brown University, and the University of Michigan, receiving his law degree in 1935. From 1935 to 1939 he was assistant attorney for the Oklahoma Tax Commission. In 1939 he became a partner in the law firm of Gavin and Barnes. From October 1941 to June 1946 he was general counsel for the Tulsa plant of Douglas Aircraft Company, Inc. Much of his work involved Government procurement procedures, negotiated prime contracts with the Air Force as well as supervised or approved thousands of purchase orders and subcontracts for supplies from small businesses. Prior to entering Government service, he was a practicing attorney, and as an adjunct to his law practice, organized and managed several small businesses in Oklahoma. He served in the House of Representatives of the Oklahoma Legislature from 1950 to 1952. He is a member of the Oklahoma Bar Association, and the American Judicature Society. He is Treasurer of the Federal Bar Association and a member of the Association's National Council. This is his third lecture at the Industrial College of the Armed Forces.

6

MILITARY PROCUREMENT AND THE SMALL  
BUSINESS ADMINISTRATION

2 January 1958

ADMIRAL CLARK: The fact that small business is an essential element of our economy and thus of national security has been recognized by the Federal Government for some years. Since 1942 the Congress has enacted several laws to ensure the health and vigor of small business. The last law now in effect is the Small Business Act of 1953. In many of its provisions this act stresses procurement particularly; and, in conjunction with the Procurement Act of 1947, has stipulated that the Department of Defense shall give special emphasis and attention to assisting small business.

This morning we shall have the pleasure of hearing from the Administrator of the Small Business Administration, who will speak to us on "Small Business and Military Procurement." He is eminently qualified to cover this subject, having had a successful career both in and out of Government. As a practicing attorney he was the general counsel of the Tulsa plant of the Douglas Aircraft Corporation. He organized and managed several small businesses in the State of Oklahoma. He also was a member of the House of Representatives of that State before assuming his present position in 1953.

It is a great pleasure to welcome back to the College for his third lecture the Administrator of the Small Business Administration, the Honorable Wendell B. Barnes.

Mr. Barnes.

MR. BARNES: Admiral Clark and Gentlemen: You may be assured that this is a great privilege to me to discuss with resident students of the Industrial College of the Armed Forces, small business--its place in our national economy and its contributions to national readiness and defense. I wish also to touch on some of the problems I find in administering the policies and operations of the Small Business Administration so that they will bring maximum contribution to the major objective of our national policy--that a fair share of Government purchases for supplies and services be placed with small business.

It has been my pleasure and advantage to take the field course given by the Industrial College of the Armed Forces. Because of the excellence of the training and knowledge to be gained through this course, we worked out an arrangement so that each of our employees could have the opportunity to take the correspondence course. In addition to the Administrator and two Deputy Administrators who have completed this field course, 17 of our employees have completed the correspondence course and 13 others are currently enrolled. We value highly this opportunity to become familiar with the plans that can be and should be made for mobilization.

As some of you may know, the Small Business Administration is the result of a growing awareness and recognition of the keystone position of small business enterprise in our national economy. Congress in the enactment of the Small Business Act of 1953, also gave recognition to the basic role of Government to enable small firms to overcome some of the disadvantages they have merely because they are small.

I should like to discuss briefly the functions of the Small Business Administration. This will give you a background for the principal topic of my talk--the operations of SBA as they contribute to the major objective that a fair proportion of Government purchases of supplies and services be placed with small business.

I think the first thing we should do is to define small business. The Small Business Act of 1953 defines as small any business that is independently owned and operated and is not dominant in its field. It further gives the Small Business Administration authority to issue further definitions based on number of employees and business volume.

Traditionally the military, for 10 or 15 years, has used a definition that a business is small if it has fewer than 500 employees, including affiliates. There are advantages to this definition. It is easy to administer. Contracting officers can be very certain about size if they can ascertain the number of employees on a given date. There is no problem of making individual size determinations, as under some of the other definitions.

However, there are very serious inequities in this definition. Clearly, there are many firms in the size group between 250 and 500 that are not small, competitively speaking, in the particular industrial classification which they may be in. Furthermore, there are some industries in which firms exceeding 500 employees are small, competitively

572

speaking. It is these inequities that give us difficulty, and about which frequently Congressmen complain in their speeches in the Congressional Record.

We have attempted to work with the procurement offices, not only in the Defense Department, but in all of the civilian and defense procurement offices alike, in formulating a new definition that will retain the administrative advantages of the present definition as well as provide flexibility and additional equity in the future.

Of course this becomes important, because, in bidding on contracts, when a contract has been set aside for a small firm, if a firm is ruled out, it is then ineligible and its bid on the contract is not responsive. It thus does become very important.

I might stop here a moment to say that an estimate of the expenditures of the Armed Forces for procurement in January, this month, for jet fuel petroleum products is around \$150 million, 25 million of which has been set aside for exclusive bidding by small firms. It means dollars and cents to them to be permitted to qualify as small in order to bid on the set-aside portion. Some 134 or 135 are in that category, who have self-certified as small. Some others are in a sort of gray area, and we are having hearings to determine whether they are small or not. We have issued certificates to them.

The definition is still a little in doubt, however. Our last thought on that is to extend all of the certificates to 31 March and set a hearing date so that we can redefine some of the firms in the gray area. I assume that this morning there are probably a hundred firms across the country, and the President's advisers as well, who are examining very closely what the wires say as to what the Government hearings will come up with.

The definition used to determine eligibility for small business loans is a sliding scale, depending on the type of enterprise. In manufacturing it depends on employment. Any firm under 250 is considered small; any one over 1,000 is considered large. In between they are large or small based on the U. S. Department of Commerce Census of Manufactures.

We have this problem there: Although the U. S. Census Bureau takes a census survey each year, their definitive censuses are taken only every 10 years; and the last figures that are available are those

of the 1947 census. So the figures that we have been using since 1953 are based on the 1947 census data, and not until just last month have we been getting current data from the 1955 and 1956 business censuses taken by this bureau.

The size of nonmanufacturing firms depends upon sales volume. Retailers are small if their gross business during the year is less than a million dollars. Wholesalers are small if their volume is less than \$5 million. We have been using this definition in connection with loans, and it has worked out very well.

In connection with procurement matters, we published a definition, as described a minute ago, in the Federal Register the first of last year--early in January of 1957--and asked industry if it had any objection to this particular definition. We have received virtually no criticism. I think there was only one firm in the whole United States that criticized that definition. However, we find that the procurement agencies themselves prefer that we retain the 500 standard, but permit business concerns to self-certify as to whether or not they are large or small under certain circumstances, and then have the SBA issue certificates in problem cases.

That is the type of more flexible definition by which our procurement activities are now governed. However, a universally accepted solution is not easily or quickly obtained to so complex a problem as evolving a definition of small business that meets all practical requirements and likewise conforms to the criteria of each particular industrial, institutional, governmental, or political group. I am hopeful that the refinements of our present working definition will become evident as we gain experience and understanding of the many facets of this complex problem.

To give you an idea of one of these facets, the House passed a bill, which is now lodged in the Senate awaiting action in this session, in which they require that we do away with the separate definition for procurement and apply only the definition that we use for loan matters in procurement matters; and give the Administrator 60 days after the bill is enacted within which to issue a new single definition that will apply for every possible purpose. Well, I don't know. We will see.

The Small Business Administration superseded and assumed most of the functions of two previous agencies--the Small Defense Plants

Administration and the Reconstruction Finance Corporation. In some areas the activities were a little bit more limited than those of the previous two agencies, in that we do not have the large rubber and tin programs of the RFC and have a limit on the size of our loans, which the RFC did not have. But insofar as the Small Defense Plants Administration is concerned, its function was limited chiefly to defense manufacturers, although more than 300,000 businesses were actually eligible for the type of assistance they could give. We have no such limitation, so that we are obligated to work with and try to bring assistance to the some 4 million small businesses in this country.

I might give you just a moment of historical background. In World War II there was a Small War Plants Corporation which was organized, which did very effective work during World War II in developing new contracting sources and in serving in sort of an advisory capacity to the procuring agencies. At that time, however, the problem was very different than it is now. There was more business than there were manufacturers, more contracts than there were people to perform them. But they brought in some very knowledgeable businessmen. The people at that time in the services in many instances who were doing the buying had civilian backgrounds and really appreciated and needed some of the technical advice that they received from the Small War Plants Corporation.

In 1945 and 1946, however, this was disbanded; and from then until 1950 the function of organizing programs with particular reference to small business was vested in the Department of Commerce. However, with the outbreak of the Korean War or immediately preceding the build-up for that situation, the Small Defense Plants Administration was created by an act of Congress in 1950. It did not make loans. It dealt only with Government procurement. Although it could recommend that loans be made by the RFC, the RFC actually made the loans itself. Then, as indicated, the Small Business Administration replaced SDPA in 1953. At the same time the RFC was liquidated and we assumed their limited functions.

Our policies are somewhat similar to those of the RFC as to loans. Ninety percent of the RFC loans were for amounts under \$100,000. We have a maximum limit of \$250,000 on each of our loans, so that we can go into the larger areas than were 90 percent of the RFC loans. The average loan is about \$50,000 or a little less.

57

We also have a limited loan participation plan, in which the SBA share of a loan can be no more than \$15,000. A bank must take at least 25 percent of those loans. This program has been in effect a year now. Some 39 percent of our loans last year were of this type, in which there was a bank participation, the bank taking at least 25 percent of the loan, or in which our participation was limited to \$15,000 or 75 percent of the loan, whichever was the less. It had to be under \$15,000. I think that makes that clear.

I am frequently interrogated before congressional committees as to whether our policy is more liberal or more strict than that of the RFC. In terms of our policy there are some six or eight places where we, by reason of policy changes, will make a loan where the RFC could not make a loan. But in terms of approvals of loans, the only data I have on this, which are informal, are that during this last year we had net approvals of between 50 and 51 percent of the applications filed. In 1950, which was a very big year for the RFC, the same figure was, I am informed, 42 percent. So it could be said that at least last year we made somewhat more loans in relation to the number of applications filed than did RFC. However, this has some economics to it. It may be that business conditions were somewhat better in 1957 than they were in 1950 and that this enabled the applicants who came in to present a little better financial picture.

The Small Business Administration has three basic functions. The first is to make certain that adequate credit is available at reasonable rates for small business concerns. We do that by a financial assistance program in which we are required by law to insist that borrowers first try to get the desired financing from a private bank; and, if that is not available, that they solicit a participation loan from the bank with SBA; that is, a loan in which the bank takes a share of the loan and the SBA takes the remainder, either in the nature of a guarantee or a loan which is administered either by the bank or by SBA. Only if those two routes are not available will we consider a direct loan. We make loans, generally speaking, if their management has been good; and if their record of earnings is such that, if they get the loan, there will be reasonable grounds to believe that the loan will be repaid. These are matters of credit judgment, of course; and people may differ as to decisions in these matters; but, generally speaking, we try to ascertain these credit factors along the same general credit line that any lending institution would use in judging a credit situation.

This is not to say that we cannot go further than a bank or private lender can go. We have authority to take second mortgages, even third mortgages, or to take as collateral some things which banks cannot use in making their loans, such as unimproved real estate. All of our Federal banks, our national banks, cannot make loans on unimproved real estate. We can. And we have authority to go into financial situations into which sometimes private banks cannot go, but recommend that the financing be provided.

It should not be thought that the borrowers that come to SBA are all in distressed situations. They are not at all. Many of them are individuals or companies in cities where their local bank either has been unable because of its size to take care of the credit needs of a particular borrower, or where the bank is already extending another form of credit, such as constitutable financing, inventory financing, or something of that sort to the borrower and cannot go into the kind of long-term situation which is desperately needed in order to enable the business to increase its volume. That's usually the type of situation in which we can be of most assistance.

We have some 41 field offices in various cities around the country and in Alaska, Hawaii, and Puerto Rico.

The second function under financing is that we are obligated to make disaster loans whenever a natural catastrophe occurs, such as a flood, a hurricane, or a storm of any kind which results in damage to businesses or home owners. In this situation we make loans to home owners as well as businesses. We make loans to them by a rapid procedure in which we use credit committees composed of local bankers and businessmen which give us their recommendations based on their knowledge of local conditions. We have delegated a great deal of authority to the field to approve those kinds of loans. The SBA has been called into many sections of the United States and in the Territories to provide disaster loans during the past year. Of course in the preceding year some of you may recall the bad hurricanes on the east coast. We were very active then all up and down through the areas which were stricken.

Our second major function is to make certain that small businesses have a fair opportunity, and an equal opportunity, to bid on the purchases of the Government of supplies and equipment, and that a fair share of the Government's purchases goes to the small firms in the Nation. We do this by working very closely with the Defense Department and other

Government procurement agencies. We have what we call a joint determination program, in which employees of the Defense Department, our civilian procurement department, and our employees screen proposed procurements; and the ones where the products either historically have been manufactured by small concerns or which they are capable of manufacturing are set aside for their exclusive bidding. There is still competitive bidding for this type of procurement, of course. The overall effort is to keep the mobilization base broad.

We do not lose sight of the fact that the Department of Defense and the services have the basic responsibility in the procurement field. It is our purpose, therefore, to try not to interfere with, but to work jointly and cooperatively with, the agency or department which has the basic responsibility.

It is true, of course, that we have a responsibility to insure that the interests of small business enterprises may be recognized and protected. At the same time, the military services have responsibilities defined under their laws to see that a fair share of procurement goes to small firms. I believe it would be fair to state that SBA and the military services you represent are jointly accountable that this fair share objective is attained. Many small firms are at somewhat of a disadvantage in competing for Government contracts when one considers that the larger companies are able to maintain Washington representatives and a staff that can keep much better informed as to the Government plans and requirements. Likewise, larger business concerns are fully aware of research and development not only from the point of view of industry and commercial problems with related requirements, but with respect to long-range problems and requirements for mobilization planning and defense production.

We have attempted to overcome this information problem in several ways. And I might say at this point that it's not the purpose of these small business programs to provide subsidies or to provide a competitive advantage to small firms. It is that in some of these situations small firms by their very size are at a disadvantage in competing. This is clear with regard to information obtainable on procurement. And then we might as well face it. Procurement officers and procurement people themselves have a tendency, a very natural and human one, to, if possible, do the least amount of work necessary to do the best possible job--this would be true of anyone--and to place an order with a large firm, where you have a rather good assurance of delivery and

500

nothing goes up against your record that you may in the future be held accountable for. So for this reason a set-aside program enables a procurement officer to have assurance that his decisions in the matter are justified. But in no case is there a subsidy or a desire to place small firms at a competitive advantage over large firms.

In the matter of obtaining information, which is one of the large problems of small business, we have published for the first time what we call the U. S. Government Purchasing Directory, in which are listed all the procurement offices of the Government and each of the types of articles, supplies, and materials that are purchased at that particular installation. It not only lists the procurement offices of the Defense Department, but also the General Services Administration, the Veterans' Administration, the Atomic Energy Commission, and the civilian or nondefense procuring offices of the Government. This in effect puts in the hands of anyone who purchases this directory accurate detailed information so that he in turn can get on a bidders list in various places around the country for the type of article that he is manufacturing. I will leave these here in case any of you wish to examine them. Some of you might wish to procure them for yourselves sometime.

We also have issued a U. S. Government Specifications Directory, also available from the U. S. Government Printing Office. The motivation for this was that too many times in invitations to bid, rather generalized specifications of the article are given, and the businessman does not have available the prints and specifications that are needed to prepare his bid accurately and quickly. So there we have listed where each specification is available, and have given very detailed information on the Government's procurement policies and practices.

In order to make immediately available the information in these two directories, they are now being combined into a single volume, which has not as yet been published.

We also have shorter information on selling to the Government and various other things. I don't want to tell you where you can go and get "ponies" to get through this course, but some of you might look over what's available in this and some of our other publications.

Incidentally--I'll mention it now in case I forget it later--I have brought with me a checklist of the various type publications that we have issued. Copies have been placed in your rooms or offices, so

500

that you may see what they are. I can't offer you any better deal than I can offer to the public, but those that we are able to furnish without cost we will be glad to furnish to each of you. If you will read those checklists and check off the items you would like to have furnished to you, we will be glad to furnish them without cost. The others that do cost 20 or 30 cents you will have to get from the Printing Office anyway. I am glad to make that contribution toward the success of this course.

I'd like to say generally too, just as a citizen in talking with other citizens, that we don't lose our citizenship merely because we start working for the Government, and one of the important things to me in this work that we are doing in making available information on Government procurement on a wide basis is that we are tending and trying in the most effective way possible to protect the integrity of the procurement system. That affects your reputation and mine and all of us. Information that is closely held and not available as to the business operations of the Government has tended to be regarded with suspicion by private citizens, by people trying to deal with the Government. The more that we can make this information open and available to anyone who wants it and give him an equal opportunity to deal with the seller, the more we eliminate the five percenter and the negotiator and the shady transactor that has sometimes found a possible field in dealing with the Government on contracts. So I think this is a laudable activity and one that all of us should subscribe to as a general principle. I think we should do everything we can to foster it for the sake of our own integrity and the integrity of the services and the general country.

The third major function of the Small Business Administration is to provide management and technical and production assistance to small firms. We do this by having experts from private industry, and the Government, if necessary, or from the professions, prepare small pamphlets on industrial subjects and management subjects. We distribute most of them free. These are the ones to which I referred a moment ago as being listed in the publication that was placed in your offices. For a few of them, where they are more at length and have required more complicated research and expense in printing, a small charge is made of 20, 30, or 35 cents.

In this there is an attempt to develop management information for small business by original research, that is particularized and specialized for the problems of small firms. A course in accounting, for

instance, such as is taught in a university or an accounting school, is fine for specialists in accounting, or people who are heading out to be CPA's, or it may be aimed at the comptroller's position in a company or someone dealing with a complicated cost accounting system. But it may not be too much help for a man who must keep his records on slips of paper that he keeps in his hat, gives to his wife, and his wife makes up his statements on her ironing board once a month. A great many of the Nation's 4 million small businesses keep their records in very much that fashion. They may do it maybe slightly better than that, but I have seen some that were kept in exactly that way.

We are trying to develop simplified means of recordkeeping and tax information, as well as more technical information, such as how to keep tools in good condition, how advertising can assist certain small marketers and retailers, and many of the subjects which are too lengthy to go into here. We have probably a hundred or more titles now in these management areas. They are very well received. On the U. S. Government Purchasing Directory, for instance, over 100,000 firms purchased the first issue, the first volume, which was in existence for only about 18 months until we put out the second volume. The second volume was published in January, 1956. Of course, large firms and Government procurement officers use these volumes as well as small firms.

Now I would like to review in a little greater detail our programs of assisting small firms in obtaining opportunities for Government contracts.

The first of these programs is that of setting aside proposed Government procurements for award to small business concerns, through joint action with the military services and certain Federal civilian agencies. The SBA has basic agreements to carry out this program with the Departments of Defense, Commerce, Agriculture, and Interior, and the Veterans' Administration, General Services Administration, and the Post Office Department. Until recently the basic agreement between DOD and SBA for the administration of the joint set-aside program has been contained in DOD Instruction No. 4100.9, which was implemented by each of the services' operating instructions. The basic agreement now has been incorporated in the Armed Services Procurement Regulations by Change No. 24, dated 19 July 1957.

The SBA has assigned representatives to the major military purchasing offices to carry out this program. There, in cooperation with military procurement officials, proposed purchases are jointly screened, determinations made as to the types of facilities needed to produce the items, and there is an evaluation of the prospects for small business competition. At that time our representatives request that all or a portion of each procurement considered suitable for supply by small firms be set aside for them.

Last year, when I appeared before this group, one of the resident students observed that there was a tendency to make the size of military requirements much greater than they would be ordinarily, which is a normal development from the concept called the single service procurement. The question arose as to the place of small business in trying to get some of that business. It was suggested that such business would likely be too big for any small firm to handle.

We believe that a procurement is too big only if it is the type of article that small business cannot manufacture at all. (The fact that there is a large quantity called for does not startle us at all.) We have that situation occurring in present procurement. If it is a large production run of an article that small business has traditionally manufactured 50 percent of, or 30 percent of, or 60 percent of, the services will break it into different production runs, different contracts, and give small business a chance to compete on the same share that they have held heretofore. Also I believe there is a procurement regulation that allows a small firm to bid on a lesser quantity than the full quantity of a production run of that type. The services have authority to change their quantity. At least it's not unresponsive if a small firm bids on a less quantity but within its capacity.

Now, that does not necessarily limit small business even so, because in competing for the business that is not set aside, the unset-aside portion of the order, they can bid against large companies; so that certain types of articles that they are capable of making, even if they are combined or pooled to make them, will not, in my opinion, tend necessarily to reduce the percentage that they may get, providing we keep this set-aside system program intact and continue to work with the services in dealing intelligently with each contract, setting part aside and seeing that no price advantage is given to small or large companies.

I might say, without going too much in detail in this, that the way the set-aside program works is somewhat like this: The bids on the unset-aside portion are taken first. Then the small firms or those within a certain percentage of the winning bid in the unset-aside portion are allowed to compete, but they must in a negotiated contract meet the figure of the winning bidder in the unset-aside portion. This is gobbledygook, but that in effect does not give them a price advantage on the set-aside portion.

We have another program which supplements that of restricting procurement for award to small business concerns. We shall call this the potential sources program, since it is directed at locating competent small business suppliers for those areas in which small business competition has been lacking or inadequate. When our representatives at military purchasing offices jointly screen procurements, they obtain all possible information concerning past procurement history and the prospects for small business competition on the procurement being examined. When they learn that the item or service can be supplied by small business firms, but that there has been little or no competition from them, our representatives request the Small Business Administration field offices to locate competent suppliers for the particular item or service. They are also requested to assist suppliers in getting on source lists with the appropriate purchasing office. All possible information concerning the item or service, including drawings and specifications, is forwarded to our field offices so that industrial engineers may select firms which are competent to supply the item or service and which wish to bid. This sort of action not only increases small business competition and broadens the industrial base, it also has the effect of assuring a better price to the Government because of increased competition.

Another of our basic programs for assisting small concerns is that of providing counsel on how and where to sell to the Government. As you well know, military procurement is very complex, with a very large number of different items being bought by many different purchasing offices.

We have another program which ties in closely to our counseling activities which we call the prime contract referral program. It amounts to just about that. When a small business firm requests assistance from us in obtaining Government orders and contracts, it is asked to provide detailed information regarding its production facilities.

This information is analyzed by our industrial specialists, and the firm then is notified of current bid opportunities which are suited to its particular type of equipment. It also is advised how to get on the bidders list to receive future bidding opportunities direct from the purchasing installations.

Another area in which small business needs a great deal of assistance is in obtaining subcontract work. We have found that many proprietors of small plants not only do not know where to look for subcontract opportunities, they don't know how to present information concerning their plant and their potential services to prime contractors or to large subcontractors. In other words, they are inept in putting their best foot forward. This situation is further aggravated by the fact that when business activity decreases, Government prime contractors tend to perform work in their own plants that would ordinarily have been subcontracted.

Small firms which request subcontract assistance from the Small Business Administration are asked to furnish detailed information concerning their plant facilities, equipment, and items which they can make or services they can provide. After analyzing this information, our specialists develop subcontracting opportunities for the small firms with prime contractors and large subcontractors. In addition, we counsel them on how to sell their services to prime contractors and how to find firms needing components which they can produce. Further, they are provided information on major prime contractors in their areas.

These are the activities on the part of the Government that assist small firms to remain on a competitive plane with larger companies. These are the major programs to carry out the functions and policies expressed by Congress in the preamble to the Small Business Act of 1953, which resulted in the establishment of the Small Business Administration.

What is the present position of small business in the national economy? How does it fit into economic mobilization?

We are experiencing now, and will undoubtedly see in the early months of 1958, some slackening in overall business activity. Such readjustment or corrections are something that must be expected to occur periodically during the long-term expansion. I do not expect

577

myself that this correction phase will be one of long duration. Certainly it will not interfere with the tremendous increase in our population, with its increased needs, and the requirements for new products, new machinery, and new equipment, as a result of the research occurring in industry.

As one example of the demand which is only being temporarily deferred, housing units being built this year will total a little less than 1 million, but the real demand is for 1.1 million, thus foreshadowing a pickup in that vital sector next year. Fortifying the outlook for construction are the expenditures on public construction by Federal, State, and local authorities, which it is estimated will increase to \$15 billion next year, \$1 billion above the level of this year.

It seems strange to me in watching it for several years how one year it will be one sector of the economy that suffers. Now, last year a large percentage, more than 30 percent, of the increase in business failures--there were 1,000 more firms failed last year than the year before--was in the construction field. Practically all the difficulty was in the construction field. It was the construction contractors that were having difficulty. The year before, in 1956, it was the automobile dealers. And there was a reason for each of these. In 1956 the automobile dealers were suffering from their expanded volume that they did in 1955. They had their largest year in 1955. So in 1956, automobile sales were off somewhat and the marginal operators got hurt. Last year it was the marginal contractors that got hurt.

I mentioned the research because I think few of us comprehend the industrial aspect of some of the expenditures that were made for research in the past 10 or 12 years. As you know, we have spent twice as much since 1946 as was spent in all the preceding history of the country, both by the Government and private industry, for research. Some of these articles are just coming on the market resulting from the basic research that was done. We can expect many more.

In some areas small firms, may I add, are doing an excellent job in some of this research. In my office, for instance, I have an article that all of you are familiar with, a humble article of wearing apparel, a T-shirt. I could give it to you to look at. It looks, tastes, and smells just like any other T-shirt that you have ever seen. But a little textile mill up in New England, wholly owned by one man and his son, developed this T-shirt, which is different from all the others that I've

ever seen in that he has really perfected, after about two or three years research and spending a couple of hundred thousand dollars on it, a method of treating this T-shirt so that it repels insects. Flies, ants, and bugs of all kinds will not come within 10 feet of the wearer of this T-shirt. Maybe you won't need any delousing machines and that sort of thing in our next war.

This is just the typical type of thing that one guy can do; and, as you know, six T-shirts go to every sailor, soldier, airman, and marine every year. This T-shirt, incidentally, will stand 12 to 20 washings before it starts losing its quality, depending on the strength of the detergent you use. In the course of reaching this solution he picked up a couple of other good qualities. It's a deodorant. If the wearer has to wear it for 10 or 12 days without getting a bath, it tends to make other people be able to come near him. It kills fungus more effectively even than it acts on insects. Well, maybe there will be socks and underwear and other things made out of this later. But this is the reason that small business must be encouraged, because they are working with ideas like this in areas that you would never suspect.

I don't see any cause for gloom at the present. What is labeled as the recession of today would be considered a bonanza prosperity of a former era. A major element in the present business outlook is the anticipated cutback in business and plant expenditures of 5 percent. That's a figure on which many economists are issuing somewhat gloomy prospects. However, you should recall that the expenditures on plant and equipment of \$37 billion this year, which is the predicted figure, compared with \$26 billion in 1952.

I should also like to mention the fact that inventories are not at all unsound now. They are not at an unsound level, because there has been no wild inventory spree, such as occurred sometimes in the past before a recession. Readjustments also have already occurred over the past two years in many sectors of the economy that would be likely to have difficulty if they were overexpanded or if they had too much inventory. Most important of all is the fact that this present Administration seems determined to keep the economy on a sound level and to keep its fiscal house in order.

Small business, of course, shares in the general business outlook, since nearly half of the jobs in the economy come from small business.

The impact on small business of any downturn in the economy is, of course, more severe initially than the impact on larger businesses. One of the reasons is that there is a smaller cushion of profit and reserves in small businesses compared with large. The second reason is that with a decline in business there is a tendency on the part of larger manufacturing businesses to do less subcontracting and to do more of the work previously subcontracted within their own plants.

Typically the larger firm makes a smaller margin of profit on its investment, whereas the successful small firm either has a feast or a famine. If it's successful, it makes a great deal of money; or it's marginal and exists a short time and drops out.

I am unable, of course, to give you any precise forecast as to what will happen statistically to small business during the year 1958. However, I should like to point out that at the present moment small business is in a healthy state.

Small business is not going out of existence. The total business population is estimated at more than 4.3 million units, of which we can say that more than 4.1 million are classified as small businesses. This high level of small business in terms of numbers is adequate refutation of any charge that small business is in a moribund state of health. The total number of small businesses is one-third greater than it was in the prewar period, in 1939. In 1956 there were more than 380,000 new businesses organized, as against 327,000 discontinuances--a net increase of about 54,000. For 1957 new business incorporations were almost 137,000 as compared with 141,000 in 1956.

Now let us look at the failure picture, since some consider this as a prime barometer of small business health. In 1957 there were 13,739 failures, as compared to 12,686 during 1956--an increase of only 8 percent. In the vital area of manufacturing, failures are running about the same as 1956. In the retail trade there has been an 8-percent increase, and in construction there has been a 17-percent increase.

Pinpointing the failures more exactly, they have occurred in retailing of furniture, home furnishings, lumber, building materials, hardware, and in the automotive group. I won't go into the reasons for this. The business failure figure is a cause for concern, and I would not like to gloss over the increase in failures which has occurred, small as it is. However, I would like to emphasize that the number of

failures is less than it was in the prewar year 1939, even though the number of businesses today is one-third greater. In 1957, the real failures per 10,000 firms was 51.7 firms, compared to 48 in 1956, an increase, in other words, of only 3.7 firms per 10,000 firms in the country. For the year 1939 it was 70 firms per 10,000.

I might say that all these figures come from Dun and Bradstreet's reports. As you know, no Government agency keeps records on failures.

There are two figures which are garnered from statistics compiled by the SEC and the FTC from quarterly reports submitted by manufacturing firms to which I should like to refer. For the nine months ending 30 September the latest figure we have on earnings after taxes for firms with assets under \$1 million is \$678 million. This compares with \$849 million for the nine months ending 30 September 1956. But for the comparable period of 1955, the figure was \$579 million and for the comparable period 1954, it was \$439 million. Since the year 1954, the trend in small business earnings, which had suffered a precipitous decline during and immediately after Korea, has been upward. The return on stockholders' equity after taxes for the nine months ending 30 September was 10.4 percent for small business, as compared with 13 percent a year earlier. This figure, however, has shown a bounce from the year just after Korea, when the figure had declined as low as 7 percent.

How can small business firms best contribute to national readiness?

The first general problem, I would say, is that full recognition is usually not given to the capabilities of small business, that is, on the part of the Government, such as in buying or in determining whether required facilities are available from small firms before granting rapid tax amortization inducements to expand large firms. The earnings of large companies now show a peacetime competitive advantage gained by large companies over small ones by rapid-tax-amortized facility expansion during wartime. I hear it repeatedly from small firms.

A large firm will expand its buildings under rapid-tax amortization and then, after a war, or after the building has been amortized, will put other facilities in the building and compete in that building against a small firm which had, perhaps, the same facilities available prior to the granting of the tax amortization. We, of course, as the Small Defense Plants Administration did before us, work with small firms to try to increase the amortizations that are granted to them.

A second continual problem is one of materials allocation. In a period of scarcity, there is always difficulty in allocating scarce materials to small firms. They usually have not a large staff to keep their problem before the agency that is doing the allocating and usually someone comes up with a panacea, such as, "We will use a historical pattern in granting allocations of scarce material"--the historical purchasing pattern. This puts an immediate penalty on new concerns and concerns that are expanding, and perhaps on the very ones whose brains and talents you want most. So that is a problem.

A third problem is manpower control. That is usually geared to large companies' problems only. Small companies tend to lose out in the competitive race for personnel in wartime.

What are the functions of small companies in a mobilized economy? Well, here are my own observations and those of others on the staff who have had time to consider the problem:

1. They may manufacture, as prime contractors, defense items which are not suited to the mass-production techniques of the giant companies. Examples are multitudinous. There are many types of electronics items needed in such small quantities that mass-production techniques are not the most efficient way of producing them. There are many types of equipment that, furthermore, require custom development. They may be found in the optical field. They may be surgical accessories and many other things of that nature which are vital necessities in a period of mobilization.

2. Small firms may manufacture as prime contractors defense items which do not require the mass-production techniques of large companies.

The difference between the two is this: The first is items not suited for mass-production techniques; the second is items which do not require them. Examples of the latter are pallets, boxes, various types of packaging, and other items which small companies may manufacture as well as large companies. It is to the advantage of the Government to use the large companies for operations which they can perform best, and to use the small companies for operations which they can do, and can do successfully.

3. The third function is to manufacture as subcontractors components, parts, subassemblies, and so forth for defense items which are being manufactured by large companies as prime contractors.

56

I hardly need to give you an example of those, but two that might interest you are these: General Electric uses approximately 40,000 small businesses as subcontractors and suppliers; RCA uses 6,000. That is the way the aircraft companies operated during the last war. There are 10, 11, or 12 major companies which were prime contract manufacturers of airframes, and their components and subassemblies came from smaller companies. They used 7,000 subcontractors.

4. The fourth function is that small companies can manufacture, or continue to manufacture, essential civilian items.

How can this mission of small companies be accomplished in a mobilized economy?

First, one very clear way is by the maximum use of the set-aside program which has been developed between the Defense Department and the Small Business Administration, to reserve and set aside prime contracts for small companies. It would merely mean an enlargement of the present program and perhaps the strengthening of it by regulations within the Defense Department and the civilian purchasing agencies, as well as perhaps some statutory increase of authority.

Second, we maintain a facilities inventory, on which small firms list their productive capacity, their machines, their tools, their buildings, the square footage available, and all that sort of thing. We do it now to call attention to contract opportunities on which they may bid. In wartime this facilities inventory may be screened for suitable small companies to be used as subcontractors by large companies. We have done it very successfully many times, particularly in connection with atomic energy prime contractors' programs.

Third, small companies may be grouped together into pools to handle larger prime contracts than each one could handle individually. We have authority to do that under our law. We have organized pools, some of which have worked reasonably well in peacetime. But in wartime it is a much more successful operation, because each company is willing to subordinate its own interest for the overall good of the group.

Fourth, financial assistance: (a) Under military contracts the work of small companies can be vastly expanded by the making of progress payments. That is the real key to the maximum utilization of small firms, since most of them in some of their business contracts

will require progress payments to be able to perform. (b) Under the essential civilian operation of small firms we can continue to make, as we are doing now, SBA loans through banks and through our own operations.

What do small firms need in a mobilized economy that they do not expect or do not necessarily need in peacetime? One is technical help. Any small firm working with a large firm--and I saw repeated examples of this during World War II--in order to reach its maximum capacity has to rely on its prime contractor for technical advice, the most detailed technical advice, on plant layout, inspection techniques, materials handling, processing methods, conversion problems, and any help needed in obtaining personnel and in rationing problems in connection with its personnel, and then in obtaining scarce materials to perform the contract. As a matter of fact, most all the large companies had sections set up to perform each of these functions for subcontractors; and the skill with which they did that affected their whole plan of operation and delivery schedules.

It is exceedingly important from the military viewpoint, because when you have delivery schedules to meet and are dependent on the success of each unit in a long chain, the absence of a few items may, as I have seen it happen, rackup a whole series of aircraft until the delivery of the subcontractors are made. The alert contracting officer or administrator for the Government will look beyond the contract date of his prime contractor and will look back into the sub, and sub-sub, and on down into the third and fourth tiers, to see which one of them has facilities to meet delivery dates on a certain item.

Some of the functions of small companies in a future emergency, which I have not mentioned, are as follows:

First, there would be immediate need for small plants to move in to replace large company facilities damaged by attack, by our reassigning portions of the prime companies' contracts to an individual firm or a group of small companies. How would this be done? Well, bomb damage would be assessed, and portions of contracts to be reassigned would be determined by others than the Small Business Administration--the Department of Defense, the Federal Civil Defense Administration, the Office of Defense Mobilization, and so forth.

As an example of how this might be performed: Detroit, for instance, might be badly damaged. Other agencies might assess the

bomb damage and determine what contracts must be relocated for the success of the emergency effort. When they determine these requirements, when this has been reduced to a crash procurement basis, and when the requirements are spelled out and the military performs its functions of determining requirements, identifying contracts, and identifying the damage that must be covered by relocation of contracts, then SBA would be, and should be, qualified to group together immediately small companies needed to perform the work.

Now, the details of information on small company production capacity would be located by an expanded use of the Small Business Administration's facilities inventory in a future emergency. Here is how we would do that: We are authorized by law now to conduct a business inventory-survey and to ascertain small companies and the facilities they have that might be used in an emergency. We do not have a complete detailed survey or census of this sort in being. The reason is that it would be perfectly absurd to have it in existence at any one time, because it would be out of date tomorrow. There is a constant turnover. That is a difficulty of the American business picture generally, and perhaps it is even more true of small firms. Any list that was compiled today would be out of date tomorrow. What we must have are techniques to get the information promptly and quickly and have it available when called upon to assist the military in crash procurement.

Here is how we would do it: We would have preselected agencies or individuals in each State to provide promptly, at the outbreak of an emergency, a current list of all the small manufacturers in each State. This is all to be done by those agencies immediately on a prearranged basis. Then SBA would mail a facilities inventory card on which they could list the capacities of each of the companies, to be filled out and returned to our headquarters at a relocation site. Thus we feel that we can very promptly obtain a census of more than 300,000 manufacturers by having the system worked out in advance.

When these inventory cards are received--and of course we would not have 100 percent answers, but the response would be very good, based on past similar activities--the data would then be punched on IBM cards for rapid selection of facilities by type and for production assignments as above indicated. We would keep a master file in our relocation site, with duplicates in each State or regional office, so that we could answer questions on either a regional or a national basis.

What legislation is necessary for this type of emergency procurement service? Well, very little. We need an emergency appropriation, of course, to start the expanded facilities inventory, and perhaps legal requirements that the inventory data be returned promptly when requested.

In order for us to begin immediately with any such program, we, the SBA, need only two things--a contract with the IBM Company for machines and service, and stocks of printed forms in readiness. We are in the course of exploring that contract with IBM, and have the forms in effect completed.

In skipping over the subcontracting program I neglected to mention one phase which would be of interest to you. We have a subcontracting program now with the DOD and the Navy procurement offices. It is contained in the Procurement Regulations. It is a very tentative program at present. Under it in the larger prime contracts a standard clause is inserted, by which the prime contractor agrees during the performance of this contract to create in his plant a subcontracting program to assist small business. Of course it's contemplated at the time the contract is entered into that there will be a lot of suppliers and a lot of subcontracting, and this merely tries to create a more uniform policy on the part of the larger major prime contractors of the Government. In some 400 of the largest prime contracts, including each of the services, this clause is now contained.

Under the clause the prime contractor also gathers figures on how much subcontracting he does. Those figures have been collected during the past 18 months and are just now for the first time available to us, so that we can make a study of them and see if anything further should be done. This will also permit us to be aware in time, we will say, of cutbacks on Government procurement, and whether the prime contractor tends to withdraw the work only into his own plant and pass all the effect of the cutback on to his suppliers. Government procurement officers will likewise be aware of this. Of course, we don't wish this to happen. We want to keep a procurement base, a mobilization base, as broad as possible.

In several instances the most knowledgeable procurement officers of the Government have undergone a change of thinking in the past three or four years. I don't know whether this can be ascribed to anything that I've done or not. But I'd like to think that maybe to a small degree

at least it's been from that cause. But in the negotiations for some of the large aircraft contracts the standard clause was included; but when it came to actually the signing of the contract, which involved a whole weapons system, the officers in charge asked verbal assurance from the prime contractor that a certain percentage of the work called for under this contract would be subcontracted or would not be done by the prime contractor himself. And actually the prime contractors, although with some resistance, name the figure; and then in the first year's performance records they have surpassed it, gone beyond the figures they gave. The contract itself does not contain any indication that a certain percentage is to be subcontracted; yet there were verbal assurances that it would reach a certain amount.

We felt that it would be hazardous to write this into any contract, because a prime contractor, if he's to do his best job, must have a certain freedom of action. However, a weapons system contract, it seems to me, is such that if some further assurance is given than just making the prime contractor give such assurance, we may see a situation created in which the Government itself tends to concentrate in major industries a larger proportion of its work, which would be harmful to the very things that you and I are working on, which is to have a large number of competent contractors available for use by the Government in the case of an emergency. The only way to have that broad mobilization base is to use it in peacetime as well as in wartime.

However, the future aspects of the subcontracting program I can give you no information on. We are just now collecting figures on the first year during which prime contractors have kept these figures. This will be the subject of future study.

I want to add only this: There is still a tendency in some areas to say that the next war will be fought with whatever material and equipment we have on hand at the time it breaks out and that therefore there is no need to plan for any utilization of small firms on a wide basis. This is not the view of all people in the services or of all people connected with procurement.

I am a member of the Defense Mobilization Board and I believe that it is of the utmost significance to have the widest possible area of industry available to make essential civilian items, survivor items, and to be available for replacement of contracts from damaged areas. This can be done, I submit, only through full utilization of the small

507

business sector of our economy. And as the experts of the future of this country on mobilization planning, I ask you men to consider this one figure: Roughly one-third of the manufacturing capacity of this country is in small business. Any planner who fails to recognize this fact and fails to take account of it in his planning is being derelict in his responsibility. It would be like a plant owner ignoring one-third of the capacity of his plant. You and I are looking at the entire country and its capacity to produce under extraordinary circumstances. And I tell you without equivocation that one-third of this potential is in the small firms of the country.

It may be the third that we will need the most in the case of an emergency, since it is not concentrated. It is not pinpointed as a target, but on the contrary is well designed for exactly the thing that we have in mind, in that it is scattered and it has diverse ownership. If we are ingenious enough, it can be used, through the organization of pools of small companies, to produce essential and needed items that are too complicated for any single small firm to produce. It can be used in other ways if we are ingenious enough. But it will not be used if planners and mobilizers think in terms of using only the weapons that are in existence at the time that pushbutton war starts, because even one missile getting through would require a relocation of contracts and the development of essential civilian items.

I want to close with just one thought: I don't urge anyone to subsidize or give anything to small firms to which they are not entitled as citizens. I do say that you and I should be interested in the welfare of small business and should desire to foster it, and for a very good reason which is not so obvious and which seldom appears in print.

In the examination of our economy any student must quickly reach the conclusion that it is the enterprisers and the small locally owned businesses which are not only the backbone of our Nation, which make us have prosperity, or which cause the economy to fall off when we have a bad situation; but also they are the very bulwark of our liberty. A large firm is operated by managers who are accountable to widely diversified owners, sometimes associations, plus other nonvocal absentee owners. In the conduct of their business, in dealing with labor unions, in dealing with Government itself, they are accountable only in the event they commit some crime--this is the managers of large firms--or in the event they fail to make a profit. So they may agree to changes in various ways of doing business, or they may not

be vocal in opposing acts of the Government itself, where a small firm will never agree. And the reason small business firms won't agree is that they have all of their capital and stake and ownership invested in their business. They can't agree. So that is a resistance to socialism. A resistance to unreasonable demands from unions which have acquired extraordinary degrees of power and are able to affect our whole economy must come from small firms. While this may not be important to you and me if we are employed by the Government, as citizens it is important to us for the opportunity that may be available to our children; and it certainly is important if we are to have a vocal, vigorous sector of the economy that is able to stand for the type of freedom that we have heretofore believed in as an essential part of this country.

Thank you. Now to the best of my ability I will try to answer any questions that you may have.

MR. HENKEL: Mr. Barnes is ready for your questions.

QUESTION: I have heard a rumor that the SBA plans to absorb the military small business specialists in the services' SBA organizations. I wonder if you would comment on the validity of this rumor; and, if it is true, give some indication of the advantages thought to be obtained by this.

MR. BARNES: It is not true that any such plan has been approved or is in being as such. We have been attempting to improve the system of handling the set-asides. This involves by its very nature a joint determination and means that two people must do the job. We think there is a better way than that. We think there are some ways that can be found so that it is done without duplication. This would involve using a larger number of people on the actual setting aside, but having all that review of procurement take place at the requirement stage of procurement rather than at the contracting officer stage. This would mean that there would not be repetitious review. When once a type of item was set aside or indicated for small business, it would remain in that category.

I am oversimplifying, of course, because there would be a number of categories. It would be placed in one that was clearly to be procured from small business. Other types would be placed in categories that were not to be obtained from small business. In between there would

be doubtful areas where the contracting officer would have to decide. But in any event, this decision now takes place at the contracting officer level.

When you contemplate that there are some 8,000 contracts a day entered into under the United States Government all over the world, and many, many thousands of contracting officers who each must make these decisions, it seems to us that there can be a simpler way. In the course of this, undoubtedly one of the aspects would be for the small business specialist to operate under our jurisdiction, and then for us to assume more responsibility in answering to Congress on the percentage. As a matter of fact, it would result, in my opinion, in our being able to tell Congress that small business got all of the business that they were entitled to and that they could take care of, which we are not able to say now.

It's merely a planning stage. How it would work I don't know. The services are commenting on it now. It's not a move at the small business specialist as such, but it's, rather, a revision of the whole procedure.

QUESTION: My question is somewhat related to that. How do you determine what percentage small business is entitled to? How do you determine what is their fair share of any particular procurement? Is it based on their capacity as against the capacity of the big firms? Or is it based on some other yardstick?

MR. BARNES: Where it is the type of item that has been produced in the past exclusively by small firms, there is a 100 percent set-aside. Where historically there has been some furnished by large and some furnished by small, there is an arbitrary decision, but as near as possible it's based on the shares that have been furnished in the past, if there has been open bidding. If it's a new item, and if it's well within the capacity of small business to produce and produce efficiently and at low cost, it is set aside for small firms. These are in each case arbitrary decisions, but, if possible, related to reality.

QUESTION: I was interested to hear you comment that you didn't feel that we should offer subsidies to small business any more than to individual citizens with normal responsibilities. It would appear to me that in certain areas, particularly those areas which are 100-percent set-aside for small business, we may be paying a premium, which

53

amounts to a subsidy in price, which is borne by the average taxpayer and by the Government as a whole. I wonder, first, could you give us an estimate of what the overall net cost of this Small Business Administration is to the Government or to the individual taxpayer?

Second, I am wondering if your office is just as interested in helping small firms get portions of the business of, say, General Motors as of Government procurement; or what are the qualifications of small business that you actually work on?

MR. BARNES: I will answer your last question first. Yes, we are. We try to help them get civilian business in the same way we do any other type. I think it has just become good public relations for some of the larger companies to indicate their interest in small business. I am sure you have seen some of the ads that have appeared during the past six months.

On the first part of your question, the cost of running the Small Business Administration has averaged about \$6 million a year, of which approximately \$1.8 million is applicable to our Procurement and Technical Assistance Program. It's a cost for service rendered in the same sense that the Commerce Department provides service to businessmen or the Interior Department or Agriculture provides services to farmers. That is the area in which Government procurement activities would fall.

However, Government procurement is not all the activities. So only a portion of that would be chargeable as a subsidy if you called our Government procurement work a subsidy.

There is no subsidy as to price. These set-asides do not work out that way, because the set-aside portion has to meet the price of the un-set-aside portion. So there's no cost subsidy. The only subsidy you could find at all would be in the salaries and expenses of operating the program. A million or a million and a half dollars would be my estimate of what could be directly assigned to that purpose, and this is certainly very small when you compare the similar-type services that are made available to farmers.

QUESTION: I would like to pursue your closing comments a little bit, wherein you referred to strong and vigorous small business in this country as a goal against socialism. It seems to me that the very mechanics of preserving vigorous and strong small business in this country in itself sort of tends toward socialism. We are giving certain advantages to small business. We are providing through your own organization these advantages and Government controls to a certain

517

extent which are not given to other parts of our economy, or at least not in the same way. I don't see much difference in those things and the things that my own department, which is the Labor Department, might extend to labor unions. Would you care to comment on that?

MR. BARNES: Yes. Take the loan program, which might be most clearly the aspect that could be deemed as socialistic in nature. The fact is that the credit available in this country is not spread equally on the basis of population or geographically or in any other way. There are restrictive and regulatory laws that act specifically on the ability of private credit to meet the needs of an expanding business community.

I explained that in each of our programs we make careful effort not to compete with private enterprise. We furthermore offer any and all of our loans for sale as soon as they are made and are of age. So we are doing only what private enterprise is unable to do by reason of the limitations that are within its own method of operation. I feel that there is not one of our borrowers who would say, after we have looked over his appraisal of his assets, that this was really a socialistic program. In fact, he always says the other thing--"You are tougher than you should be." This may not be a very good answer to your question, but it would take some lengthy debate to be any more accurate than I have been.

QUESTION: Mr. Barnes, as a citizen I sympathize with small business, but as a procurement official I can't say that my feelings are quite the same. For instance, when you are dealing with small business, and they do poor bidding or poor performance and get into a position of loss or, we will say, a lost contract, we've had it and do have it, because he is broke. He doesn't have any reserve capital. I don't think the Government wants to bankrupt small firms, and yet some of them almost insist on getting in this position.

Moreover, I have found that there is quite a temptation to steal. Some people will steal little things and some will steal big ones. With the little fellow, as you say, his very lifeblood is invested in his equipment. So if he gets involved in a lost contract, he will start cutting corners every way he can even though it is not in accordance with the terms of his contract, whereas the big fellow can afford to accept a lost contract and go ahead and do what the contract says. This is quite a problem in the procurement field. Do you have any solutions to this one?

80

MR. BARNES: Well, I think that too often the problem situations appear to be typical situations, which I don't think they are, necessarily. The prime contractors with whom you deal immediately turn around and subcontract. They provide many services to those subcontractors in the way of assistance in getting material and all types of even engineering advice, as you know.

Now, it may be that that is one of the elements of procurement that we haven't researched yet, and that we should provide it ourselves. We are in effect doing that when we contract for a weapon system from a large contractor. We are asking that he perform those services for his suppliers and subcontractors.

I don't believe the ideal situation is for any small business to be 100 percent in procurement. I have never advocated that myself.

I think that any small business that does this, that organizes its business in this way, is making a big mistake, because you and I as procurement men know that the Government has to change its mind occasionally. The ideal situation for many small businesses, and large business as well, is to have a civilian business of some size and be able to use some of their capacity on Government work. As such their efficiencies are measurable, whether they are small or large. We should not let the fact that there is a percentage of them who are trying to live off the Government discourage us in trying to find the ones that we are going to need if we have an expanded requirement for Government contracting. That's the best answer I can give you on it.

MR. HENKEL: Mr. Barnes, you have given us an excellent discussion of small business and its many problems. On behalf of the Commandant and the College I want to express my sincere appreciation. Thank you very much.

(11 June 1958--4, 100)B/en