

Outline for Small Business Statement

I THE PROBLEM

Why worry about small business?

it is needed for:

1. competition; without it we will have increasing concentration, rigidities, lack of investment outlets.
2. democracy; to offset bigness and concentration of power.
3. employment; in 1939 small businesses (less than 8 workers) employed 8 million wage earners and 2 million proprietors, that is as many as were employed by large enterprises with over 1000 workers.

What is nature of small business problem?

its difficulties are:

1. basic cause is technological. Modern production requires more and more machines, hence an increasing amount of capital to get started.
2. The big fellow, who is already established, has more power and resources in competing with the little fellow and in surviving the cycle.

What should be done about it?

three approaches:

1. provide technological and managerial help.
2. improve tax structure.
3. assure availability of long term funds.

II THE REMEDIES

I. Technological aid:

1. big business can afford scientific research, marketing surveys, etc. Small business can't; sales too small to spread costs.
2. to improve this situation, "let government provide for business and industry what the Dept. of Agriculture provides for Agriculture.

II. Tax improvements: This perhaps the most important approach.

1. Principle: Present tax structure encourages speculative transactions for capital gains; these made mostly in existing and established enterprise. Instead, tax structure should encourage long term investment in new plant and new equipment.

2. Proposals:

a. Excess profits tax:

Committee proposal to raise exemptions to 25,000 is fine. No rate reductions before end of war but when time comes, and reduction of business taxes is possible, don't give all the benefit to the excess profit tax corporations (-there will still be war profits in the transition-), reduce both e.p.t. and corp. income tax gradually.

Start out cutting rate to 65 % and also consider further increase in exemptions.

b. Corporation income tax:

1. Cut rates when e.p.t. is reduced; cut from present 40 to, say, 25 %.
2. Exempt dividends paid out from the corporation income tax. This dividend credit will
 - a. eliminate "double taxation"
 - b. make it easier to get equity capital by eliminating the present tax preference for fixed debt financing. This will help all corporations but be especially important for small ones.
 - c. exert some pressure for dividend distribution.
3. Allow some minimum amount, say \$50,000 to be retained tax free. Thus the small corporation retaining not more than this amount will pay no corporation income tax. Also, it will be exempt under the excess profits tax.
4. Have long period for carry over of losses, say 5 or 6 years.

c. Personal income tax:

The bulk of really small businesses are unincorporated and need relief under the personal income tax. This raises most difficult technical problems regarding loopholes, etc.

III. Availability of long-term funds:

1. What is needed are long-term funds, whether equity or loans.
2. Equity capital.
 - a. S.E.C. exemptions of \$300,000 for filing requirements helps.
 - b. IBA Plan:
 1. Sound in relying on local approach and in recognizing that additional funds must be made available.
 2. Doubtful about financing proposal: Funds which IBA plans to use won't be available if Wagner-Spence Bill is enacted. Hence, private funds or budget appropriation will be needed. Proposed financing through Federal Reserve undesirable, --mandatory lending by Federal Reserve is bad in principle (other claimants will follow.) And interferes with broad credit management.
3. Long-term credit
 - a. Wagner-Spence Bill continues V and T loan principle.
 - b. Better to aid the banks in doing the job than to have Government do the lending. Loans made by local banks to local people.
 - c. Importance of continuing these loan facilities during transition period.

III SUMMARY

Aid to small business not sentimental matter but essential for maintaining private enterprise and democratic system. A good deal can be done by following the three approaches here outlined, i.e., (1) technological and managerial aid, (2) tax improvement and (3) credit improvement. In addition, small business problem must be seen as part of economic problem as a whole, avoiding inflation and deflation and maintaining high employment is of greatest importance for small business because if things go bad the weakest fellow bears brunt of losses.