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SELECT COMMITTEE ON SMALL BUSINESS
OF THE
HOUSE OF REPRESENTATIVES OF THE UNITED STATES
SEVENTY-NINTH CONGRESS

WASHINGTON, D. C. May 17, 1945

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M E M O R A N D U M:

To: Hon. Wright Patman, Chairman
From: Dan W. Eastwood, Chief Investigator

Subject: Digest of testimony received by Small Business Committee at hearings on FINANCIAL PROBLEMS OF SMALL BUSINESS. Hearings held at Washington, New York, Springfield (Ill.), St. Louis, Chicago, Cleveland and Boston. (March 20 - May 17)

It is obviously impossible to condense the testimony of 141 small businessmen and other witnesses into a few pages because of the variety of subjects discussed, some of which could not be considered relevant to the announced subject of these hearings.

This report, therefore, will only be an attempt to "highlight" the pertinent testimony which might be of interest to those who will testify before the Committee at the final hearings on this subject which will commence in Washington on May 22nd. The digest is as follows:

TAXES -

Although a great deal of testimony was submitted on the subject of taxation, relatively few new suggestions designed to provide tax relief for small firms were offered which had not been previously recorded by the writer in his report to you of February 17th, a copy of which is attached for ready reference.

In addition to the suggestions contained in the attached report, several witnesses testified on what they considered to be discriminations against small businesses in our present tax structure, as follows:

- (a) It was pointed out by one witness that firms having incomes between \$25,000 and \$50,000 per year pay a combined corporate tax which is 13% more than the combined corporate and surtax rate levied against corporations having incomes in excess of \$50,000.
- (b) Pension funds for high salaried employees of large corporations were attacked on the grounds that the U. S. Government indirectly bears as much as 95% of the premium cost of these pensions through their exemption from Federal taxation.
- (c) The published financial statements of some of the nation's largest industrial corporations show that these concerns, in many instances, pay out a much smaller percentage of their incomes in Federal taxes than is paid out percentagewise by small firms.

(d) High inheritance taxes prevent the assumption of ownership by a son of a small business built up by the father with that in mind, in many cases.

Note: The foregoing examples should also be considered as additional material to that previously covered in attached report of 2/17.

RENEGOTIATION -

Several witnesses protested against their inability to accumulate sufficient cash reserves with which to meet their reconversion requirements.

Instead of being renegotiated on their over-all wartime business, with due consideration being given to the probable costs of reconversion, these witnesses claim that they are stripped of their pre-Pearl Harbor cash reserves and are left often with only a pittance of liquid assets and a large inventory of raw or semi-finished materials usable only for war contracts and not for peacetime purposes. They allege that small manufacturers have been more severely renegotiated than large ones. Price Adjustment Board officials will be asked to testify on this allegation at Washington hearings.

Suggestion approved by all witnesses who testified on the subject of renegotiation was

"The loss carry-back principle should be incorporated in the Renegotiation Act for a period extending back to April 28, 1942, to continue until the transition period is completed."

LACK OF LONG-TERM WORKING CAPITAL (AND EQUITY CAPITAL) -

There seems to be general agreement among all witnesses to the effect that the majority of competent small firms experience difficulty in arranging for working capital credits for periods longer than 90 days at a stretch.

There seemed to be agreement also to the effect that venture capital is much more reluctant to invest in a small business today than in former years.

Lack of available long-term working capital was attributed to

- (a) The requirement that commercial banks must remain in a very liquid position in order to meet demand deposits, long-term loans to small businesses not being considered good paper in the eyes of the FDIC examiners or in the eyes of other supervisory agencies.
- (b) The fact that the average small banker does not maintain a sufficiently experienced credit organization to enable him to pass intelligent judgment on many of the small business credits submitted to him for final approval.

Lack of available equity capital was attributed to

- (a) Present high tax rates which do not permit the acceptance of the risk of investing in a small business without the compensating hope of reasonably high returns.

- (b) Present rulings of FDIC and other supervisory agencies which prohibit the investment of a bank's funds in corporate securities where the issue has not been given a rating of Baa or better -- it is being alleged that most rating agencies do not even bother to give ratings to corporate issues of the smaller firms.
- (c) The general fear that small firms, especially those in the retail field, will not be able to survive in face of competition of chain stores or stores which are branches of large manufacturing concerns.
- (d) The high cost of arranging this type of financing because of the registration requirements of the Securities and Exchange Commission. (An exemption from SEC requirements of small business issues up to \$500,000 was recommended.)

Testimony was offered, both pro and con, relative to the advisability of having governmental agencies assume the responsibility for making the type of long-term loans that commercial banks are apparently precluded from making.

Testimony was offered to show that commercial finance concerns can and do supply long-term credits to small business which commercial banks do not supply to any but the largest concerns. (i.e., Accounts Receivable Financing, Raw Materials Financing, Chattel Mortgages on Plant and Equipment, Field Warehousing, etc.)

Testimony was offered to show that such Federal agencies as Smaller War Plants Corporation do engage in the above type of financing at low rates of interest, but opponents stated that this was "subsidized" financing because true cost of making loan and attendant investigations were not reflected in cost of money to borrower. Opponents further stated that such agencies as SWPC were not competent to judge credits related to civilian economy because all of the agency's credit experience had been predicated upon the base risk of the U.S. Government and its war contracts.

MISCELLANEOUS -

There was some testimony to the effect that Small Business needed governmental assistance in the field of marketing and technical research. This suggestion was disputed by some small businessmen who stated that relief from high taxes and ready access to the long-term capital market for small firms would enable them to make the necessary provisions for such research through private sources.

There was scarcely a governmental agency that was not charged by one witness or another as being responsible for the particular witness's present financial problems, but, taking the long-range view, the three subjects listed above seem to provide the main bones of contention.

(See attached memorandum of February 17th for tax relief suggestions which were also recommended by many of these witnesses.)

N.B. It should be noted that one witness, C. C. Fitchner, took strong exception to a report on the alleged strong financial position of Small Business which appeared in the Federal Reserve Bulletin of January, 1945, over the signature of F. C. Dirks, Economist for the Federal Reserve Board. A copy of the hearings which contained Mr. Fitchner's statement in the appendix is attached herewith.