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CONGRESSIONAL PLANS FOR SMALL BUSINESS

An Address By

SENATOR HUBERT H. HUMPHREY

before

WHOLESALE SMALL BUSINESS MANAGEMENT COMMITTEE, MINNEAPOLIS CHAMBER OF COMMERCE

So you are the bold and imaginative small-business men who have created our State's newest pride, the Minnesota Wholesalers Association. To each and everyone of you, my heartiest congratulations. May your future as well as that of your creation be both prosperous and enduring.

At the outset, let me make clear why I am so happy that the wholesalers of Minnesota have now united in their own organization. My warm feeling rests upon some ~~28~~ years of interest in the welfare of small and independent business enterprise, first as a boy whose family needs for food, shelter, and clothing depended upon the success of a drugstore in South Dakota, and then as Mayor of Minneapolis and, for the past 8 years, as a Member of the Senate Small Business Committee. In that time, I have noticed that small-business men, as individuals, rarely speak with as loud a voice as do the highly organized groups within our economy; ~~such as the National Association of Manufacturers and the National Chamber of Commerce~~. But within recent years, this situation has been changing. The small-business men of America have become conscious of their special identity as economic citizens and of the need to organize into groups which will work to promote and to protect their interests. In joining

this community of small business trade associations, you wholesalers have taken a firm step forward. From now on, you will find your collective voice stronger and more easily heard by those who ought to be attentive to your special problems and responsive to your specific needs as small-business men.

*specifically to
Trade
Assoc
See Paid*

In addition to hailing the formation of ~~your Association~~, *the management forum* I have some advice to offer. In the activities of your organization, be guided by the principle that a trade association should properly be the servant, not the master, of its members. Let your association promote the welfare of its members by providing factual information, not propaganda; by counseling restraint, not aggression; by advising good example, not coercion. In short, use your group for improving the talents and skills of the members rather than to enforce conformity in your respective fields of enterprise. The former course leads to growth and prosperity, the latter to mediocrity and eventually to economic death.

Of course, your association must always be prepared to adapt itself to constantly changing technological and economic conditions. At all times it should also strive to perpetuate our traditional system of dynamic free enterprise. Along such lines, I am confident your group will achieve its true destiny as a bulwark of American business freedom.

Start ← In turning now to the subject of tonight's speech, I must admit that I have slightly changed its scope and emphasis by altering the title

you proposed for me. Instead of talking on the "Government's Plans for Small Business," I am going to discuss "Congressional Plans for Small Business." After serious and rather lengthy deliberation of your proposed topic, I decided that I was unequal to the task assigned and that I should limit myself to that area I understand best -- what Congress is doing for the small-business community. Frankly, I have no clear idea of what the Executive branch of the Government has in mind for small business. All seems to be confusion in that bailiwick. Though President Eisenhower has several times indicated his support of tax relief for small business, ^{former} Secretary of the Treasury George Humphrey ~~has~~ just as frequently and more emphatically vetoed the very suggestion. Moreover, Mr. Wendell Barnes, Administrator of the Small Business Administration, when he has testified before the Senate Small Business Committee on numerous occasions, has never been able to express any opinions on tax reforms. His timidity on this problem seems best explained in terms of a reluctance to choose sides between the President and Secretary ^{of the Treasury} Humphrey. I cannot blame Mr. Barnes, for his family is probably accustomed to eating well by now, but his attitude hardly helps an understanding of the Administration's position on small-business tax relief. On another matter of vital interest to small business, the President and the Department of Justice requested strengthening of the law against monopolistic mergers, but ~~then~~ ^{Mr} Secretary of Commerce Sinclair Weeks and Comptroller General of the currency Gidney voiced strong

objections to such legislation. On the question of making the Small Business Administration a permanent agency of the Government, Wendell Barnes, SBA Administrator, first told our Committee that he was opposed to plans for making his agency "permanent" but then, a week later, advised a House Committee that he endorsed the proposal. Now, can you understand my desire to avoid having to explain what the Executive branch plans to do in the area of small business?

In describing the legislative program being worked out by Congress for the small-business community, I shall start with the subject uppermost in the minds of small-business men throughout the Nation. That would be tax relief. I am confident that wholesalers here in Minnesota are no less interested in the prospects for retaining more of your earnings than are your fellow businessmen whom I have met in traveling around the country to the tax hearings being held by the Senate Small Business Committee.

Mention of the Committee's tax study reminds me to inform you that we will hold public hearings here in Minneapolis on November 13th. Some of you in the audience are slated to appear before the Committee and I want you to know that I am looking forward to hearing your testimony. I also want everyone else here tonight to know that his views on tax adjustment for small business will be gratefully received if he will only take the time to drop me a letter offering his recommendations.

Through the tax study, the Committee plans to examine anew the heavy impact of Federal taxation on small business and at the same time to acquaint small-business men with the various relief measures already proposed in Congress. In this way, the Committee hopes to gain the benefit of the opinions, criticisms, and recommendations of the small-business community and thus be in a strong position early next year to present to Congress an all-inclusive tax bill for small business.

↳ You should know that the Senate Small Business Committee is no "Johnny-come-lately" regarding small-business tax relief. I ~~remember~~ ^{participated in} the Nation-wide public hearings which our Committee held back in 1952 on the subject. Those hearings constituted the most thorough and intensive study of small-business taxation ever conducted prior to our current study. Based upon testimony taken from business and professional people in seven major cities, a report containing many sound and constructive findings and recommendations was unanimously accepted by the full Committee. The major recommendations subsequently became law, much to the benefit of small business. One such recommendation, you may remember, called for abolishing the "excess profits" tax.

↳ Since then, all Members of Congress and Members of the Senate Small Business Committee, particularly, have become increasingly aware of the unfair burden of Federal taxation imposed upon small business. As the position of this segment of our economy has worsened steadily the

past few years, it has become more and more clear that sound and constructive remedies must be taken speedily.

Though I have no intention of injecting a partisan political note in this talk to you tonight, I must refer to the small-business tax recommendations issued by the President's Cabinet Committee on Small Business last year, some five or six weeks before the National election. Those recommendations were later incorporated in one of the President's economic messages to Congress. I am certain that small-business men everywhere found great encouragement in the President's apparent solicitude for small business. What should be understood, however, is that when, later, the only tax bill for small business came up for a vote in the Session, the Administration issued orders to ~~State Republicans~~ to defeat the measure. And the bill was defeated. Small wonder then that Senators smiled cynically when, ^{still} later in the Session, the President asked for some minor technical changes in the tax laws for small business.

But the big laugh came the day after receipt of the message, when Wendell Barnes, Administrator of the Small Business Administration, exulted, "The President's tax proposals for the benefit of small business make me feel as though Christmas had come in July for small business." All I can say is that the stocking on the fireplace is as empty now in October as it was in July. In the last Session, there was only one opportunity to pass tax relief for small business and that opportunity was lost through Administration interference.

During the past Session of Congress, both the Senate and the House bent their efforts toward eliminating unnecessary Government spending. As you will recall, the President in January asked for \$73.3 billions in new spending authority, a record high for the national budget. Apart from almost \$8 billions in interest payments on the public debt, the budget estimates totaled \$64 billion plus, in itself an imagination~~n~~-staggering sum. From the total of \$64 billion plus, Congress pruned out almost \$5 billions in planned expenditures, a savings of 7.7%. The amount then appropriated for Government expenditures totaled slightly over \$59 billions.

To reduce the Federal budget further might well be endangering our national defense or our Nation's economy or even both. Remember that our defense program costs us \$33.7 billions or well over one-half of the total budget. In addition, the Mutual Security program which has done so much to strengthen our allies has an expense of \$2.7 billions. Our Atomic Energy program costs another \$2.3 billions annually. And, our program for American veterans is costing us \$4.6 billions. Thus, almost \$44 billions of our \$59 billion budget is going for purposes of national defense and veterans' assistance. The remaining \$15 billions is being spent to maintain all other Government services.

↳ Though substantial tax reductions cannot reasonably be anticipated, a more equitable distribution of the tax burden can be accomplished within existing budget limitations.

\$
Surplus of 3 Billion

In the light of these considerations, let us examine the most important small-business tax legislation now before Congress. This legislation includes five bills introduced by Senator John Sparkman, Senate Small Business Committee's Chairman. I am proud to state that I am an original co-sponsor of each of these measures.

The first bill, S. 352, provides for a graduated corporate income tax. This bill would substitute graduate rates for the present normal and surtax rates applicable to corporate rates applicable to corporate income. The present law imposes a normal tax of 30% on the first \$25,000 of corporate net income and a surtax of 22%, for a total statutory rate of 52% on all net income over \$25,000. In contrast, the proposed amendment would start with a tax rate of 5% on the first \$5,000 of corporate net income and would result in a tax saving to nearly 98% of all corporations. The tax rate on the bill would be 55% and would apply to all net income over \$100,000. Only some 2% of all corporations would pay increased taxes under the measure then and then only in relatively minor amounts.

It would, of course, be highly desirable to avoid an increase in the tax rate of any corporation. To do so, however, would require considerable economizing in the Federal budget. Should it be decided to retain a top rate of 52% in the bill, so that the rates would not exceed those under present law, a revenue loss of about \$900 millions would result. Such a revenue loss could only be offset by a corresponding

reduction in Federal expenditures. While such a cut-back would be difficult, I feel that the Administration can achieve it if it wants to hard enough.

On the other hand, should the 55% rate be adopted, there would be no loss in tax revenues.

Enactment of this graduated corporate tax bill, taken in conjunction with the provision of the 1954 Internal Revenue Code which give partnerships and proprietorships an election to be taxed as corporations, would do more than anything else I can propose to bring prompt and meaningful relief to small firms which are now so heavily burdened by our tax structure.

As briefly as I can, I will also describe the essential parts of the other four tax bills for small business, measures which will benefit all small firms, unincorporated as well as incorporated.

One of these bills, S. 351, would extend the benefits of rapid depreciation to purchasers of used equipment. The 1954 Internal Revenue Code added a new provision to our tax law which enabled purchasers of new equipment to write off the costs of such equipment at accelerated rates. This, of course, means a tax saving to small businesses. It is a well-recognized fact, however, that many small concerns cannot afford the present-day high costs of certain equipment which they need to run their businesses.

They must buy used equipment at the prices they can afford to pay. I know of no good reason why the purchasers of such equipment should not be granted the same privilege of rapid depreciation now given to purchasers of new equipment. By virtue of the fact that the equipment is used and possibly approaching obsolescence when purchased, it would appear only fair to me that the purchaser should be entitled to write off his cost over a relatively short period of time.

Another tax bill, S. 348, which I endorse would liberalize the requirements on the payment of estate taxes. It is a well-established fact that our Federal estate taxes often drain off all of the liquid funds of the small, family business when one of the proprietors dies. Under the present law, the tax on the estate of the deceased is payable one year after the death of the decedent, except that on the showing of hardship, the Commissioner of Internal Revenue may authorize payment over a ten-year period. The administration of this phase of our tax law has proven burdensome to some small businesses, indeed fatal to some, for the reason that the test as to what is hardship is not clear. But S. 348 would alleviate the problem to a great extent. It grants an estate an election to pay the estate tax over a period of ten years without any showing of hardship. In addition, where hardship can be shown - and the term "hardship" is defined in the bill in terms of equities in a business - the tax may be paid over a period of twenty years.

One of the great benefits extended to businesses in the 1954 Internal Revenue Code was that found in the provision relating to approved profit sharing plans and pension plans. Those provisions authorized sizable deductions from taxable income for contributions made by employees to pension and profit-sharing plans established for the benefit of their employees. By virtue of the language of the law, only employees could benefit from the plans. This means that a sole stockholder of a corporation who also serves as president of the company may qualify as an employee of the corporation and thus be a beneficiary under its pension or profit-sharing plan. But a member of a partnership or a proprietor of an unincorporated business does not qualify as an employee under the law and thus cannot be a beneficiary under any of these tax-exempt plans. Such plans have great and obvious advantages for the man who wants to save for his own future and for the future security of his family. A remedy for this inequitable situation is to be found in another bill, S. 350. That bill would entitle the proprietors of unincorporated businesses to the benefits of the tax-exempt plans.

↳ Lastly, I wish to discuss S. 349, a bill which would grant an election to certain corporations to be taxed as partnerships. This would benefit some small corporations which are hit especially hard by double taxes - first on the corporation and then on its stockholder on receipts of dividends. It would also be of some benefit to small

corporations which might otherwise be vulnerable to the surtax on surplus accumulations. The election would be extended to all corporations having not more than ten stockholders, all stockholders being active in the business.

I firmly believe that all five of these measures are necessary. Though the proposed legislation may not be perfect in all technical respects, I am convinced that it is sound in both principle and purpose. Every effort will be made to improve the bills in accordance with the reasonable requests of small business. I am confident that enactment of the legislation will be well-received by the small-business community. Despite our efforts, it may be said by some that the legislation is deficient in some respects. If such grievances should be heard our only consolation will be the words of Edmund Burke, the British statesman who confronted with a similar situation exclaimed, "To tax and to please, no more than to have and be wise, is given to no man."

Credit
From the tax problems of small business it is only a step to the closely related problem of adequate credit and capital sources.

L Manifestly, ready access to credit and capital requirements on reasonable terms is the key to modernization and expansion of a small business. To develop successfully, the small firm must be able to supplement its own resources from time to time with credit and capital

supplied by other investors, that is, by other business concerns, banks and other financial institutions, and even individuals. When small firms are unable to do so, that is, whenever access to such outside sources is restricted, whether by private actions, such as the prudence of businessmen in time of recession, or by Governmental controls, as when interest rates are raised in time of inflation, the expansive vitality of our economy is sapped.

↳ In such times of reduced credit, new enterprise cannot find the wherewithal to purchase realty, build a plant, buy machinery and raw materials, advertise and make the necessary expenditures for labor and other resources until the enterprise is able to pay its own way.

↳ Established firms which find it necessary for competitive reasons to produce new lines of products are unable to finance the required retooling in their plants. Farmers who buy their seed, fertilizer and other necessities at planting time and pay off at the harvest, may be denied the credit they need, except on exorbitant terms. The cumulative effect of such a policy of restricted access to credit needs is a depressed economy, an economy in which the small-business man is denied a fair opportunity to grow and to prosper.

↳ For the past two years, the Federal Reserve Board, the Government's instrument for fiscal regulation, has been trying to check the inflationary elements present in the economy. In this endeavor, the Board has taken a series of technical **steps** calculated to lessen the amount of bank funds

available for lending. Though the goal of the Board's program of fiscal controls is praiseworthy, the fact is that the pace of current inflation has not been appreciably slowed. Moreover, some effects of the program, whether intentional or nor, have had a decidedly adverse effect upon certain segments of our economy.

As Mr. Elliot Bell, editor and publisher of Business Week said in a speech before the American Bankers Association:

"It is often said that overall, quantitative credit control is the fairest kind of control. The theory is that, like the gentle rain from heaven, it falls upon the just and the unjust alike. Actually, in today's circumstances, overall credit restriction bears down very hard upon some segments of the economy while it does not at all affect others. * * * Thus home building is hard hit. But other types of construction are little affected.

"Small business is directly hit. The little fellow finds his credit drastically cut down. But the big corporation is not affected at all. The industrial giants have no difficulty financing their expansion plans. And the increased interest cost is neutralized by high taxes. A prime rate of 4 percent is an effective rate of less than 2 percent after taxes. That, of course, is for the large corporation that's making money. The corporation that is losing money -- and there are some, even these days -- gets 'socked' with the full force of higher interest rate.

"So it turns out that overall credit control is in practice, highly selective -- or at least discriminatory."

So far as I can make out, the present "tight money" policy has succeeded only in injuring small business and I cannot believe that it was so intended. But here are the facts. By the end of December, every prediction for small-business bankruptcies during 1957 will have been

topped. Already, the weekly average of business deaths has risen to 272, far above the rate for any year since World War II. In fact, failures so far this year have reached the 10,000 mark and will soon be equalling the tragic record set in 1939.

Just about every field of business is contributing to the statistics. The biggest year-to-year increases in failures are being reported by manufacturing, construction, and service firms, but retailers and wholesalers are failing in large numbers, too. And, week after week, Dun and Bradstreet reports the largest percentage of bankruptcies among companies between \$5,000 and \$10,000, small businesses ~~by~~ any yardstick. Other effects of the credit deficiency are not capable of exact statistical measurement. As someone once said, 'you can't measure the loans that weren't made,' and might I add, the opportunities lost.

By stressing the unfair aspects of the "tight money" policy, I do not blame the policy for the serious gap that exists between credit availability and the financial requirements of small business. "Tight money" has aggravated the problem, but it did not create it.

Congress has already taken steps to close the "credit gap" that plagues small business. I am proud to be a co-sponsor of the legislation designed for this worthy purpose. There are two measures involved in this effort; one a bill to establish privately-owned and operated National Investment Companies ^{designed} to make long-range loans and to provide equity capital for small businesses and, two, a bill to insure lenders against loss on small business loans.

Handing
Down
16%

Under the first proposal, Federal Reserve banks are authorized to form investment companies whose stock may later be sold to private investors. The Investment Companies may borrow money and issue obligations in order to make secured or unsecured loans to small business or to invest in the stock or other securities of such businesses. In order to encourage this venture, Investment Companies are to receive certain tax deductions and credits in the handling of tax reserves and exemption from tax on dividends distributed to stockholders.

Let me emphasize that the Investment Companies will cooperate with private financial institutions. Existing financial institutions have no reason to fear the creation of such Investment Companies for they are designed to handle a different function -- one not now being provided. The key to their success lies in their ability to supplement, not compete with, existing financial institutions.

Under the other legislative proposal, credit for small business would be encouraged by Federally-insuring all loans to small business made by lenders approved by the Small Business Administration. The program would be administered by the Small Business Administration with power to delegate functions under this act to such officers, corporations or agencies as it may designate. Loans are limited to five years. This bill permits a maximum yearly premium of 1½ percent for each loan. Let me say that this upper limit is included as a rough estimate of the maximum that may be required. Actual experience may show a much lower

premium, perhaps in the neighborhood of $\frac{1}{2}$ percent, is adequate. Generally, lender's losses would be reimbursed up to 90 percent of the loan's unpaid balance. The uninsured 10 percent should serve to maintain the customary prudence of the commercial banking system.

In my judgment, enactment of these two bills will do much to provide the small-business man with adequate sources of credit and, thus, allow him to operate aggressively, compete successfully, and to grow.

Another approach to the credit and capital needs of the Nation's small-business community involves more effective use of the facilities of the Small Business Administration. As you know, Congress established the Small Business Administration in 1953 as the successor to the emergency-born Small Defense Plants Administration. The new agency was conceived as an institution dedicated to the purpose of guaranteeing an economic climate in which small, independent business would be able to grow and to prosper.

The Congressional policy underlying the establishment of the Small Business Administration is extremely well-stated in the preamble to the statute creating the agency.

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 serucity of this Nation. Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed. It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect insofar as is possible, the interests of small-business concerns in

order to preserve free-competitive enterprise, to insure that a fair proportion of the total purchases and contracts for supplies and services for the Government be placed with small-business enterprise, and to maintain and strengthen the overall economy of the Nation.

Members of Congress who have closely observed the activities of the Small Business Administration during the past four years are agreed that, on balance, the agency has served its apprenticeship adequately. Though performance has been disappointing in several major respects, the Small Business Administration at the same time has made many significant contributions to the Nation's economy.

Permanent
To enable the Small Business Administration to serve small-businessmen more effectively, legislation is needed to make the agency a permanent office of Government. I feel that many of the agency's shortcomings are attributable to the uncertainty of its future, a problem common in temporary agencies. By giving the Small Business Administration a larger role in Governmental affairs, I hope that the agency will become a more vigilant guardian of and a more aggressive spokesman for the four million American independent business men. A strong and vigorous Small Business Administration can do much to relieve the credit and capital needs of small business.

In discussing first tonight the plans of Congress to relieve the tax and financial problems of small business and to guarantee the future of the Small Business Administration, I hope that I have not given you the impression that Congress considers your antitrust needs to be of

secondary consequence. I must emphasize that I had no such intention. I understand fully that tax relief and financial assistance and the existence of a permanent Small Business Administration means nothing unless you have present in trade and commerce those ^{fair} competitive conditions which enable small business to thrive and to grow prosperous.

At the risk of your thinking that I have not progressed beyond my lecturing days at Macalester College, I am going to review briefly the public policy upon which our antitrust laws rest. I think it is important to impress upon you the crucial function performed by the antitrust laws in maintaining the position of small business in the national economy.

American public policy holds that through the maintenance of free and fair competition, the orderly development of a vital and prosperous economy will be assured. In other words, our economic policy holds that the public is best secured by free competition of free men in free markets. Every citizen, no matter how weak, every business, no matter how small, is entitled, by virtue of this policy, to enter freely any market, and once within, to compete on just and equal terms with those already there. Every interference with or potential encroachment upon the competitive principle thus established must be resisted. Only by such measures can the market place remain free and accessible and consequently beneficial to the Nation, consumers, producers, and merchants alike.

No group benefits more consistently and more substantially from the antitrust enforcement than does small business. Through free competition, the small-business man finds the opportunity to buy his supplies and to sell his products on fair and equal terms. So long as free competitive conditions are maintained, the small-business man can translate business profits into a decent standard of living for himself and for his employees. However, when antitrust enforcement deteriorates, competition is thereby lessened and the continued existence of small firms is put in jeopardy.

With the foregoing remarks as a frame of reference, I now wish to offer my views on a bill with which you are all familiar, S. 11, or as

it is more popularly known, the Equality-of-Opportunity bill. I shall begin by emphasizing why small business is price discrimination, the target of the measure, as the most destructive of all unfair trade practices.

An analysis of price discrimination discloses that the practice is destructive of competition at two marketing levels. One level involves sellers, the other buyers. In the case of sellers, price discrimination produces competitive injury when it is used by a seller to weaken or to eliminate his rivals. A situation of this kind is created when a large seller operating in many markets practices price discrimination in those areas where his rivals are strong while maintaining regular prices in ~~areas where his rivals are strong while maintaining regular prices in~~ areas where rivals are weak or nonexistent. By such an arrangement the large seller is enabled to suppress his competition at relatively slight cost. The profits which he gains in areas of weak competition are used to offset any losses incurred where competition is troublesome. Moreover, as smaller competitors are destroyed in market after market, the large seller finds himself no longer obliged to offer price concessions. Monopoly, or oligopoly, power is his, to be exercised as whim and caprice may dictate.

Price discrimination has equally devitalizing effects upon competition among buyers. Price concessions critically affect the margin between the acquisition cost and the selling price of an article, the competitive area in which small business traditionally finds the greatest

opportunity to demonstrate its efficiency. To the extent that a price concession can and invariably does exceed whatever relative efficiency small business may possess, it represents a mortal threat to the survival of the small entrepreneur. Certainly, there can be no reasonable chance for the continued existence of small firms engaged in a competitive struggle where they must pay a higher price for their stock in trade than do their larger competitors. Even the most efficient of small firms must find the handicap of subsidizing the price concessions enjoyed by their larger competitors too great to be overcome.

In this light, it may be readily understood how the growth and prosperity, even the survival, of small business depends critically upon a strong anti-price-discrimination statute. At present, however, there is no statute adequate to the task of coping with monopolistic price discriminations.

As you know, this intolerable situation was created by the decision of the Supreme Court in the case of Federal Trade Commission v. Standard Oil of Indiana. (Standard Oil of Indiana v. Federal Trade Commission, U. S. 231 (1951).) That decision turned on whether the good-faith proviso in section 2(b) of the Robinson-Patman Act was to be construed as a procedural or as an absolute defense to a charge of price discrimination. According to the Federal Trade Commission, for the seller to show that he had

met in good faith a competitor's equally low price would serve only to rebut the prima facie case evidenced by sales at different prices. Furthermore, contended the Commission, the seller's rebuttal of the prima facie case could be nullified by affirmative proof of competitive injury stemming from the challenged differential. Thus, in the view of the Commission, the good-faith proviso established not an absolute but rather a procedural defense conditioned upon the absence of substantial injury of competition.

By a vote of 5 to 3, the Supreme Court rejected the argument of the Commission and concluded that it was a complete or absolute defense to a price-discrimination charge for a seller to show that the discrimination was made in good faith to meet the lawful and equally low price of a competitor. The defense would be absolute even though the challenged discrimination might produce substantial injury to competition or tend toward monopoly in any line of commerce.

To plug the loophole created by the Indiana decision, S. 11 has been designed. It is the purpose of the bill to prevent price discriminations that may produce monopolistic effects. Toward this end, S. 11 limits the "meeting competition" proviso of section 2 of the Robinson-Patman Act to the extent that the good-faith defense would be made unavailable in cases of price discrimination where the effect of the discrimination tends to lessen competition substantially or toward monopoly in any line of commerce. In effect, S. 11 would make the defense of meeting competition in good faith

inoperative in all cases of price discrimination where the reasonably probable effect of the discrimination is to lessen competition substantially.

With the scope of S. 11 thus limited, it is evident that the good-faith defense would still be available wherever the effect of the discrimination might be "to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them." Nor would the proposed amendment in any way prevent a seller from establishing price differentials based upon differences in costs of manufacturing, selling, delivery, and certain auxiliary services. Accordingly, enactment of the legislation could not frustrate the lowering of prices based upon economies resulting from efficiency. Also, still lawful would be the granting of earned discounts, although the offering of "unearned" price concessions would be substantially restricted.

So measured, S. 11 is fully consistent with the Clayton Act since it is intended to prohibit a business practice, namely, price discrimination having a monopolistic tendency, before the practice grows into a violation of the Sherman Act. Frankly, I cannot understand why any person in sympathy with the policy and purposes of the antitrust laws should hesitate in endorsing a proposal prohibiting a business practice producing monopolistic effects.

The sad fact, however, is that a lack of unanimity now exists, even in the small-business community, regarding the merits of the Equality of Opportunity bill. Of course, I find no occasion for alarm in this divergence of opinion among small-business men respecting the measure.

I assume that both proponents and opponents of the proposed legislation are sincere in their respective positions. Moreover, I am reassured by the fact that, traditionally, the small-business man has maintained an independence of judgment on all matters affecting his interests. Frankly, so long as I have been a members of the Senate Small Business Committee, I have never known of any legislative issue on which the small-business community has had complete agreement on every detail. Moreover, many will recall with me that, when the Robinson-Patman Act was before Congress in 1936, not every small-business man in the Nation could be said to support the legislation. So, too, was the case in 1914, when another antitrust statute, the Clayton Act, was under consideration and, yes, even in 1890, when the Sherman Act was being deliberated.

My observation is that, when small-business men meet to resolve a problem, difference of opinion are freely and honestly expressed, all for the purpose of producing a better understanding of the issues involved, and, thus, of reaching agreement on the best possible solution. The small business way seems to accord with the sage advice of John Milton in the "Aeropagetica," the classic defense of a free press: "Where there is much desire to learn, there of necessity will be much arguing, much writing, many opinions; for opinion in good men is but knowledge in the making * * * A little generous prudence, a little forbearance on one another and some grain of charity might win all these diligences to join and unite in one general and brotherly search for truth."

Notwithstanding this, though, I do regret that enactment of legislation as vital to the interests of small business as is S. 11, has been delayed.

In my judgment, you wholesalers who are sitting here before me tonight ~~ought~~ to be in the vanguard of those pressing for passage of the Equality of Opportunity bill. I know that many of you, through the national associations in which you also have membership, have made clear your support of the bill. But it would be a fine thing if your own Minnesota group would publicly offer your endorsement of the measure. By adding your weight to the forces supporting the legislation, you would be affirming your belief in the system of free and competitive private enterprise which has bestowed upon the United States an economic strength and vitality unknown in other lands.

It has been a pleasure to review for you tonight the plans which Congress is laying for the small-business community. You have been a remarkably patient and warmly responsive audience, and I deeply appreciate such kindness. I do hope that I have given you an understanding of what Congress is trying to do for you to make you happier and more secure in your economic life. I apologize if in doing so I have imposed excessively upon your time and good-nature.

In closing, may I remind you that in the final analysis of competitive enterprise there is no substitute for initiative and boldness

of imagination. In the course of my life, I have seen blacksmith shops grow into great foundries. I have seen small machine shops transformed into great industrial enterprise. I have seen small grain millers become the strongest and finest processors of food products in the land. I have seen a single small store on Main Street mature into an organization with nationwide representation.

I am sure that the future will continue to offer the same opportunities for success to small-business men, provided that Congress and the Administration maintain through wise national policies an economic climate favorable to the birth and growth of small enterprises. This, I can assure you, we have every intention of doing.

Prepared by
Phil Jehle

Pat - still
See. file
has file
over

Carlton Caldwell
Wm. Wepler

Why hate - Skipper
sign mail
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From the Office of
Senator Hubert H. Humphrey
Dyckman Hotel
Minneapolis, Minnesota
FEderal 2 7244

For Release: Friday A.M.
October 4, 1957

HUMPHREY ANNOUNCES SMALL BUSINESS HEARINGS IN MINNEAPOLIS

Senator Hubert H. Humphrey (D., Minn.) last night announced that the Senate Small Business Committee will hold public hearings in Minneapolis on the subject of tax adjustments for small business on Wednesday, November 13.

The Minnesota hearings are part of a nationwide schedule of small business hearings, the Minnesota Senator told the first meeting of the newly organized Wholesalers Small Business Management Forum of the Minneapolis Chamber of Commerce at a dinner meeting at the Hotel Radisson last night.

"Through the tax study", Senator Humphrey said, "The Committee plans to examine anew the heavy impact of federal taxation on small business and at the same time acquaint small businessmen with the various relief measures already proposed in Congress.

"As the position of the small business segment of our economy has worsened steadily during the past few years, it has become more and more clear that sound and constructive remedies must be taken speedily. Though substantial tax reductions can not reasonably be anticipated in light of the present federal budget, a more equitable distribution of tax burden can be accomplished within existing budget limitations," Senator Humphrey said.

"I am proud to state that I am an original co-sponsor of five bills on small business tax legislation now before Congress.

"The first of these bills provides for a graduated corporate income tax substituting graduated rates for the present normal and surtax rates on corporate income. The second bill would extend the benefits of rapid depreciation to purchasers of used equipment.

"The third bill liberalizes the requirements on the payment of estate taxes; the fourth one entitles the proprietors of unincorporated businesses to the benefits of tax exempt pension or profit sharing plans.

"And the fifth bill in this series grants certain small corporations the choice of being taxed as partnerships," Senator Humphrey told the wholesalers.

"Congress has already taken steps to close the credit gap that plagues small business," he continued. "I am a co-sponsor of two measures involved in this effort: One bill establishes privately owned and operated National Investment Companies to make long range loans and to provide equity capital for small business; and the second bill insures lenders against loss of small business loans."

Speaking of "free and fair competition" Senator Humphrey said, "no group benefits more consistently and more substantially from the anti-trust enforcement than does small business.

"However, when anti-trust enforcement deteriorates, competition is thereby lessened and the continued existence of small firms is put in jeopardy," Senator Humphrey told the new organization.

Amie Paulliet

Tax Reduction

Please Return to Sen. H.

Special file

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FOR RELEASE: Saturday am's, October 5, 1957
FROM: The Office of Senator Hubert H. Humphrey
Dyckman Hotel, Minneapolis

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"FOREIGN RELATIONS CAN'T RELY
ON GOVERNMENT ALONE": HUMPHREY

"Building better international relations involves more than just action by our government alone," Senator Hubert H. Humphrey (D., Minn.) told a Carleton College convocation at Northfield yesterday afternoon.

Humphrey told the college faculty and students that the United States "is fighting a totally mobilized enemy, international communism, and we can't succeed by relying on our government alone and failing to make the utmost use of our great resources of private enterprise, private initiative, private humanitarian concern for fellow human beings."

"The graduates of our colleges and universities must broaden their outlook. The measurement of their dedication to the welfare of America may well be measured by their contribution to the well-being of people seeking freedom and justice elsewhere," Senator Humphrey declared.

"The spirit of dedication needs to grip our young people.

"There's an urgent role for American business investment in foreign economic development; its use of modern capital, investment, management, and

know-how combined with social values developed on the American scene, tell a better story of America's spirit than can ever be achieved by military bases or guided missiles, however necessary they may be. Our State Department should take a keen interest in the American businessman abroad if we really want to promote private investment.

"America's organized labor movement must be encouraged to exert its leadership and influence toward supporting establishment of free labor movements in other areas of the world, rather than communist-dominated labor movements.

"We need greater recognition of the tremendous potential for good we possess in our abundance of food and fiber, if it is wisely utilized for the good of humanity in the world," Senator Humphrey asserted.

"This is the nature of our conflict: our struggle is not only against Communism, it is also directed against man's ancient enemies of poverty, disease, illiteracy and all forms of human suffering. There is little hope for peace in the world when the majority of mankind sees a future that is bleak and fraught with misery and hopelessness. Our immediate task is to help others to help themselves.

"This challenging task will be accomplished through the efforts of our colleges, particularly in the fields of health, education, and welfare -- through our engineers and scientists and our great spiritual and religious institutions.

"Too much is at stake to risk our future with honorable but untrained Ambassadors appointed for social prestige as a political reward. American businessmen, news correspondents, representatives of voluntary humanitarian and religious organizations, and educators frequently have more contacts with private foreign citizens -- and sometimes with governmental officials -- than do our official representatives.

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"We need to recognize that the current contest in the world is being waged for future alignment of great underdeveloped areas, and the outcome may hinge more on social, economic and trade policies than on military alignments. There will be no peace achieved with the Soviet Union until it realizes it can not win in Asia and Africa.

"We urgently need a comprehensive foreign policy designed to utilize and mobilize the forces of American education, business, labor, our food fiber, and Americans generally to work hand-in-hand with our government, to implement that policy."

Voluntary Agreements

Turning from the general scene of international relations to the specific problems of one "trouble area", Senator Humphrey suggested four recommendations toward "easing the explosive tensions of the Middle East".

They included:

Do what we need to do

1. "Leadership in the United Nations toward an outright ban on arms shipments into the Middle East".
2. "Creation of a UN Good Offices Commission, comprised of leading citizens of the world, with a mandate to seek both territorial and political settlements between the Arab states themselves, and between the Arab states and Israel".
3. "Making permanent an expanded UN Security Force for the Middle East, and other trouble zones that might develop".
4. "Creation of a Middle East Development Agency, composed of the states in the region and other states contributing to the Agency's capital, as a catalytic agent which might precipitate solutions for many of the most vexing problems of the region by encouraging a regional approach to developmental projects."

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REAPPRAISAL URGED OF U. S. APPROACH TO GROWING INTERNATIONAL PROBLEMS

(Excerpts from Address by Senator Hubert H. Humphrey, (D., Minn.), member Senate Foreign Relations Committee, before Los Angeles World Affairs Council, Biltmore Ballroom, Thursday noon, September 19, 1957.)

Carleton College

Growing world unrest and tension calls for a "total reappraisal" of the United States' approach to international affairs, Senator Hubert H. Humphrey declared today in a talk before the Los Angeles World Affairs Council at the Biltmore Ballroom.

"At the very outset,, we need a good hard look at our own representation abroad," Senator Humphrey declared.

"Too much is at stake to risk our future with honorable but ~~totally unskilled~~ ^{entrained} and ~~inexorable~~ Ambassadors appointed for social prestige as a political reward, or ~~even with career foreign service personnel more concerned with social niceties than with a dedicated zeal as missionaries of peace and freedom.~~ ^{We need a foreign service}

"Our country's embassies in trouble spots of the world are ~~really~~ ^{in fact} general staff headquarters in a struggle for survival, and they must be commanded by men sensitive to the political and economic forces at work in the area in which they are called upon to serve. They must be men and women conscious of the vital importance of aligning our country with the aspirations of the people themselves, rather than just maintaining good relations with any particular ruler or ruling clique. We need to mobilize and make better use of the brainpower, judgment, experience, and understanding of dedicated Americans trained in international affairs, ~~to run our outposts in critical areas of the world.~~"

Senator Humphrey called for more emphasis on development of "regional specialists" in international affairs, and more of a "regional approach" to seeking solutions of complex problems through frequent regional conferences of American diplomatic missions abroad.

But "building better international relations involves more than just action by our government alone," Senator Humphrey added. (R-1)

"There's an essential role for American business to play, as well as our country's great voluntary agencies and individual citizens themselves", he declared.

"American businessmen, news correspondents, representatives of voluntary humanitarian and religious organizations, and educators frequently have more contacts with private foreign citizens — and sometimes with governmental officials — than do our official representatives. Each of these people-to-people contacts contributes to the total impression which the United States makes abroad. There ought to be closer cooperation between American businessmen abroad and our diplomats.

"We need to recognize that the current contest in the world is being waged for future alignment of great ^{underdeveloped} undeveloped areas, and the outcome may hinge more on economic and trade policies than on military alignments.

"There will be peace achieved with the Soviet Union until it realizes it can no longer win over the peoples of Asia and Africa.

"As a consequence, our foreign policy must be geared to strengthening the political and social institutions of such underdeveloped areas, and encouraging and guiding their own economic development and progress. But it must be more than 'paper' economic development, or even 'bankroll' influence wielded arrogantly by our government -- it must be soundly-based industrial and agricultural development recognizable to the people of the area concerned, with convincing evidence that our interest is in the well-being of the people themselves, rather than in material advantage for ourselves.

"Here is an area where we can challenge the Soviet and win. Here is an area where we can best portray America's vision and enterprise and 'know-how' -- and America's concern for social justice for all people. We're not a military people -- and we're not acting ourselves when we rely on rattling sabres in a jittery world. By character, emotion, and experience, we're better prepared to lead toward progress, than to plan toward destruction.

"We urgently need a comprehensive foreign economic policy designed toward fulfillment of such objectives -- and then we need to mobilize the forces of American business, American labor, and Americans generally to work hand-in-hand with our government to implement that policy.

(A) (X) "We're fighting a totally mobilized enemy, and we can't succeed by relying on government alone and failing to make the utmost use of our great resources of private enterprise, private initiative, private humanitarian concern for fellow human beings. (D)

"There's an urgent role for American business investment in foreign economic development, and it's our job to find ways to make it more effective. American business enjoys a deservedly good reputation abroad. Its use of modern capital, investment, management, and know-how is combined with social values developed on the American scene to tell a better story of America's spirit than can ever be achieved by military bases or guided missiles, however necessary they may be.

"Our State Department should take a keen interest in the American businessman abroad if we really want to promote private investment. The businessman himself ought to be consulted for his views on how investment possibilities might be improved. America's business community itself must be encouraged to explore the

private role it can occupy in building better foreign relations, and must bring its own influence to bear toward formulation of sounder foreign economic policies by our government.

"America's organized labor movement must be encouraged to exert its leadership and influence toward supporting establishment of free labor movements in other areas of the world, rather than communist-dominated labor movements.

"We need greater recognition of the tremendous potential for good we possess in our abundance of food and fiber, if it is wisely utilized for the good of humanity in the world. And we must encourage expansion of the people-to-people sharing through our great voluntary agencies sponsored by our churches and CARE, rather than relying entirely on government-to-government dealings in food and other necessities of life.

"We must build reservoirs of good will with the peoples of vast areas of the world now vulnerable targets of communist infiltration, rather than putting all our chips on leaders themselves, however friendly they may currently be. Leaders and governments come and go, but bonds built between the hearts and minds of people survive far beyond temporary shifting and swaying of local political tides."

Senator Humphrey warned that "our commitments around the world have grown like Topsy, with too little self-examination of our ability to fulfill them."

"We need to carefully evaluate the extent of our commitments, to make sure we're able to support them economically and militarily. It's little use to negotiate pacts and agreements, if we are not prepared as a people to back up our words with deeds if it becomes necessary", he declared.

Turning from the general scene of international relations to the specific problems of one "trouble area", Senator Humphrey suggested four recommendations toward "easing the explosive tensions of the Middle East".

They included:

1. "Leadership in the United Nations toward an outright ban on arms shipments into the Middle East".
2. "Creation of a UN Good Offices Commission, comprised of leading citizens of the world, with a mandate to seek both territorial and political settlements between the Arab states themselves, and between the Arab states and Israel".
3. "Making permanent an expanded UN Security Force for the Middle East, and other trouble zones that might develop".
4. "Creation of a Middle East Development Agency, composed of the states in the region and other states contributing to the Agency's capital, as a catalytic

agent which might precipitate solutions for many of the most vexing problems of the region by encouraging a regional approach to developmental projects."

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Discussing his four-point program, Senator Humphrey commented:

"Shipment of arms into the Middle East may well aggravate existing tensions, instead of easing tensions. It may just lead to the explosion we are seeking to avoid.

"In rushing arms to Jordan, we are once again merely reacting blindly to Soviet actions rather than projecting any real solution of our own.

"The Soviet gains by keeping alive tensions and unrest. They know they can provoke conflicts and tensions, as long as we continue to react as we have to every move they make. They want trouble in the Middle East as an excuse for digging further into that area, and we seem determined to help them draw tighter the lines of conflict instead of asserting our leadership toward avoiding conflict.

"Here, if anywhere, is an opportunity to try a limited disarmament move. The Middle East lends itself to both aerial and ground inspection. If negotiations for total disarmament appear deadlocked, let's at least assert our leadership in the United Nations toward negotiating a UN-enforced total arms shipment ban into troubled areas of the Middle East," Senator Humphrey said.

In calling for a "UN Good Offices Commission" designed to seek boundary and political settlements in the area, Senator Humphrey cautioned that "we can't solve complex problems of the Middle East alone; we're just risking further disrepute as international busybodies trying to tell everyone else what they should do".

"Neither can we just dump problems on the UN, and not face up to our own responsibility as a world leader," he added. "Instead, we must use the UN as a vehicle to seek solutions by asserting our own leadership within the UN, and seeking to mobilize support of other nations for united action.

"Neither we nor the UN can force solutions unacceptable to the Middle East itself, but within the UN we can seek to enlist the cooperation of countries from the Middle East with countries from other areas of the world toward a more constructive approach than now exists."

Expanding upon his Middle East Development Agency proposal, Senator Humphrey said it "should be organized within the framework of the United Nations, a specialized, regional economic program with multilateral participation for multilateral purposes".

"Such a Development Agency could undertake projects itself, lend money to either private or public agencies, and participate in equity financing, in the manner of the International Finance Corporation. It could manage projects. It

could carry on scientific research in such matters as soil fertility. It could make basic engineering surveys and contribute to the drawing up of overall regional development plans. Furthermore, it could carry on long-term technical assistance," he explained.

Its advantages, Senator Humphrey said, "would be political and psychological as well as economic".

"It would help divert the attention of certain Arab leaders from military adventures to internal economic development. Turning these energies into constructive channels would eventually lead to institutional and social changes, such as the growth of a middle class, which would have a beneficial and stabilizing influence.

"It would provide a means of channeling Arab oil revenue into productive uses which would benefit the entire area, thus utilizing part of the presently existing hard money resources of the Middle East for the financing of regional development.

"It would be an international entity with which the states of the area could carry on bilateral negotiations, and bilateral economic agreements.

"It ^{could} ~~would~~ work out a solution to the whole Palestine-Arab refugee problem. The only long-term solution for the refugees is basic economic development, which will make it possible for the area to support more people at a higher standard of living.

"It could encourage international acceptance of the Jordan River plan, and similar development projects involving more than one state. It could give technical assistance and supervised farm credit to farmers settling on new lands coming into production from the development of the Jordan, the Litani, the Tigris, the Euphrates, and the Nile.

"Even a cursory look at the region's resources reveals the absolute economic interdependence of the states of the area, and the necessity of interregional cooperation", Senator Humphrey declared.

"The creation of a Middle East Development Agency along these suggested lines would emphasize the fact that it is in the interests of all concerned to move from intraregional feuding, to intraregional cooperation for development."

THE SOVIET SATELLITE AND U. S. NATIONAL SECURITY

Excerpts from Remarks

by

Senator Hubert H. Humphrey, D., Minn.

Before St. Paul Rotary Club

October 8, 1957

Three developments in the past months have given the Soviet Union a tremendous advantage on the world scene. She has scored three sensational victories, all to the detriment of the free world and particularly to the United States.

1. The successful firing of the first intercontinental ballistic missile.
2. The trouble at Little Rock, Arkansas which is a national shame and an international tragedy for the United States.
3. The successful launching of an outer space satellite.

The "Soviet first" in the ICBM field should not be underestimated militarily. It means that the Soviet is far out in front in the development of rockets and missiles. Added to this is the recent disclosure by the United States Navy that the Soviet has perfected a 1500 mile missile which places in jeopardy every overseas United States base within the radius.

The action of Governor Faubus in Arkansas in obstructing the program on integration in the public schools and in using the National Guard to prevent compliance with the Supreme Court decision and what represents a series of events that has had a devastating effect on American prestige in Asia and Africa. This attempted effort at nullification and obstruction of constitutional law has been exploited by the Soviet propaganda machine in every area of the world. No amount of money for the Voice of America or the United States Information Program can repair the damage. It will require deeds, not words, if we are to gain the respect and confidence of the people of Asia and Africa as well as others. The Soviet has gained a significant victory. We have suffered a humiliating defeat -- all because of the intransigence and prejudice of a few.

The Soviet's successful launching of a satellite underscores the progress that has already been made by the Soviet Union in the field of missiles and rockets. To propel an earth satellite into outer space required long-range missiles and rockets. There have been two spectacular scientific developments in the past generation. First, the splitting of the atom and the harnessing of atomic energy for the purposes of war and peace. In this area we were first because we harnessed our energy, concentrated our resources and had the will and determination to succeed.

The second great scientific breakthrough is the launching of a satellite. In this area we dissipated our energy, permitted conflict and confusion between the three branches of our Armed Services, the Army, Navy and the Air Force. We did not mobilize our scientific personnel. In other words, we failed to learn from our experience in the atomic field. It required a Manhattan District Project in the field of atomic energy to create the atom bomb. This meant that we harnessed, coordinated and mobilized all of our

resources under one central agency and direction. This type of administrative operation proved successful.

In the field of rockets, missiles, and satellites, we have permitted agencies of government to squabble. There has been no central direction, no central management, and above all, no over-all mobilization of resources and talent. The time is long overdue for collective action.

I shall join with my colleagues, Senator Symington and Senator Mansfield in introducing legislation to direct the establishment of a special agency for satellite, missile and rockets development. We need a Manhattan District project in this field if we are to regain the time that has been lost.

And finally, the American people have never been told the truth relating to new weapons developments and as to Soviet strength and potentiality. We have been continually fed a propoganda line that all is well. The political scene of peace and prosperity is being shattered by the realities of Soviet arrogance, Soviet achievements and the development of economic troubles at home and abroad.

The requirements of national security have been sacrificed on the altar of political expediency and the desire of the Administration to put budget deilings on a higher priority than the national defense.

While the Administration was limiting defense expenditures in order to prevent a breakthrough in the debt ceiling, the Soviet Union was expanding and enlarging its defense program and succeeded in breaking through into outer space.

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