Powerful Cross-Currents Running Deep Under Surface of Nation's Small Business Economy—They Demand Careful Charting

(This is the second of a series of special studies to be released this year on responses by Federation members to our 1966 Fact-Finding Survey which will cover our more than 200,000 members in smaller, independent business and the professions. Other special studies, involving other survey areas, will be released in later months.)

Powerful cross-currents are running deep under the sunny surface of the nation's small business community. Unless they are charted accurately, safe passage of the nation through what could be perilous straits ahead may be difficult, if not impossible.

This is the major conclusion reached in the analysis of the 23,000 signed responses received from Federation members to the current fact-finding survey, "*Independent Business Employment, Investment, Expansion,*" (sample copy enclosed) during 1966 First Quarter.

Although there are encouraging signs of small business continued growth during the past year, there are strong indications that much damage may be done should the 7 percent Investment Incentive be repealed, as suggested by some authorities.

For instance, while 32.6 percent of all respondents during 1966 First Quarter (statistical analysis attached) reported that they had engaged in what they described formally as expansions or modernizations, 55 percent reported they had spent money on purchase of new equipment. Against this, as indicated in other analyses not reported here, only a little more than 20 percent reported they had increased their employment.

These facts indicate a marked probability that small business may be attempting desperately to increase productivity to survive increasing cost and competitive pressures, to hold employment levels, and to move ahead. Obviously, to independents new and more modern machinery is the key to survival and growth.

As to the 7 percent Investment Incentive, this conclusion is extremely significant. The Federation's 1965 Survey proved conclusively that the Incentive—which is machinery oriented—has been of greatest help to small business of all the independent-enterprise tax revisions since 1957. Clearly, repeal of the Incentive would deal a body-blow to the nation's small business structure—with potentially disastrous implications to the economy in the future. Following is the back-drop against which this must be viewed:

Again in 1966 First Quarter, as in the year-long report on the 1965 Survey, and the report for 1965 First Quarter, small business showed itself a major factor in the creation of additional job openings for our growing population. In fact, the rate of new job production indicated during 1966 First Quarter by those who formally reported expansions or modernizations was exactly the same as that reported during 1965 First Quarter—2.0, but below the average 2.7 new job openings creation reported for all 1965 responses.

In today's economy, with its tight skilled labor situation, creation of new job openings is considered by many as a problem rather than a boon. Yet as recently as two years ago the reverse was decidedly the case. Within another two years, granted a settlement in Vietnam or in the cold war generally, the pressing need could be once more for the creation of job openings. Without a vital small business economy, whose continued health depends so directly on continued availability of the Investment Incentive, joblessness could become an extremely grave national problem.

In any case, with coverage generally the same as one year earlier, through First Quarter 1966 some 36.2 percent of all resopndents reported formally that they had expended or modernized their operations during the preceding year. This figure compares with an average 33.1 percent expand or-modernization rate reported throughout entire 1965 in last year's survey, and with an average 32.6 percent rate reported in 1965 First Quarter.